

April 2, 2009

Philippine Stock Exchange  
4/F Phil. Stock Exchange Center  
Exchange Road, Ortigas Center  
Pasig City

**Attention: Noel B. Del Castillo**  
OIC – Disclosure Department

Gentlemen:

In accordance with the Securities Regulation Code, we are submitting herewith a copy of SEC Form 17-A (Annual Report) of the Company as at December 31, 2008.

Very truly yours,

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**



**MA. LOURDES C. RAUSA-CHAN**  
Corporate Secretary

# COVER SHEET

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S.E.C. Registration No.

P	H	I	L	I	P	P	I	N	E	L	O	N	G	D	I	S	T	A	N	C	E
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(Company's Full Name)

R	A	M	O	N	C	O	J	U	A	N	G	C	O	B	L	D	G	.				
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M	A	K	A	T	I	A	V	E	.	M	A	K	A	T	I	C	I	T	Y
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(Business Address: No. Street City/Town/Province)

JUNE CHERYL A. CABAL
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Contact Person

816-8534
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Company Telephone Number

1	2
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Month

3	1
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Day

SEC FORM 17-A
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FORM TYPE

0	6
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Month

Every 2<sup>nd</sup>  
Tuesday

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Fiscal Year

Annual Meeting

C	F	D
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Dept. Requiring this Doc.

N/A
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Amended Articles  
Number/Section

Total Amount of Borrowings

2,183,561
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As at February 28, 2009

Total No. of Stockholders

N/A
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Domestic

Foreign

N/A
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N/A

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**To be accomplished by SEC Personnel concerned**

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File Number

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Document I.D.

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Remarks: Please use black ink for scanning purposes.

SEC Number **PW-55**

File Number

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**PHILIPPINE LONG DISTANCE  
TELEPHONE COMPANY**

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(Company's Full Name)

**Ramon Cojuangco Building  
Makati Avenue, Makati City**

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(Company's Address)

**(632) 816-8534**

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(Telephone Number)

**December 31, 2008**

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(Fiscal Year Ending)  
(month & day)

**SEC Form 17-A  
(Annual Report)**

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Form Type

**Not Applicable**

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Amendment Designation (if applicable)

**Not Applicable**

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Period Ended Date

**Not Applicable**

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(Secondary License Type and File Number)

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND  
SECTION 141 OF THE CORPORATION CODE  
OF THE PHILIPPINES**

1. For the fiscal year ended December 31, 2008
2. SEC Identification Number PW-55                      3. BIR Tax Identification No. 000-488-793
4. Exact name of registrant as specified in its charter Philippine Long Distance Telephone Company
5. Republic of the Philippines                      6. (SEC Use Only)  
Province, country or other jurisdiction of                      Industry Classification Code:  
incorporation or organization
7. Ramon Cojuangco Building, Makati Avenue, Makati City                      1200  
Address of 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 and 12 of the Securities Regulation Code, or Sections 4 and 8 of the then Revised Securities Act.

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding</u>
Common Capital Stock, Php5 par value	187,483,837 shares as at December 31, 2008

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 Securities Regulation Code and paragraph (2)(a) Rule 17 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 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 [   ]
13. Aggregate market value of the voting stock held by non-affiliates:  
Php405,902,671,645 (187,483,913 shares @ Php2,165 per share as at February 28, 2009)

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## CERTAIN CONVENTIONS AND TERMS USED IN THIS ANNUAL REPORT

Unless the context indicates or otherwise requires, references to "we," "us," "our" or "PLDT Group" in this annual report mean Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to "PLDT" mean Philippine Long Distance Telephone Company, excluding consolidated subsidiaries.

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

In this annual report, each reference to:

- 3<sup>rd</sup> Brand means 3<sup>rd</sup> Brand Pte. Ltd., an 85%-owned subsidiary of Smart;
- ACeS Philippines means ACeS Philippines Cellular Satellite Corporation, our wholly-owned subsidiary;
- AIL means ACeS International Limited, a 36.99%-owned associate of ACeS Philippines;
- Airborne Access means Airborne Access Corporation, a 99.4%-owned subsidiary of Smart;
- ARPU means average revenue per user;
- BayanTrade means BayanTrade Dotcom, Inc., a 45.11%-owned associate of ePLDT;
- BCC means Bonifacio Communications Corporation, a 75%-owned subsidiary of PLDT;
- BSP means Bangko Sentral ng Pilipinas;
- ClarkTel means PLDT Clark Telecom, Inc., a wholly-owned subsidiary of PLDT;
- CURE means Connectivity Unlimited Resources Enterprises, a wholly-owned subsidiary of Smart;
- CyMed means CyMed, Inc., a wholly-owned subsidiary of SPi;
- DigiPar Thailand means Digital Paradise Thailand, an 87.5%-owned subsidiary of ePLDT;
- Digital Paradise means Digital Paradise, Inc., a 75%-owned subsidiary of ePLDT;
- DSL means digital subscriber line;
- ePLDT means ePLDT, Inc., a wholly-owned subsidiary of PLDT;
- ePLDT Ventus means the umbrella brand name for ePLDT's customer interaction solutions, including Ventus, Vocativ and Parlance;
- First Pacific means First Pacific Company Limited;
- First Pacific Group means First Pacific and its Philippine and other affiliates;
- FHI means Francom Holdings, Inc.;
- FPHC means First Philippine Holdings Corporation;
- FPUC means First Philippine Utilities Corporation;
- GSM means global system for mobile communications;
- I-Contacts means I-Contacts Corporation, a wholly-owned subsidiary of Smart;

- Infocom means Infocom Technologies, Inc., a 99.6%-owned subsidiary of ePLDT;
- IP means internet protocol;
- Level Up! means Level Up!, Inc., a 60%-owned subsidiary of ePLDT;
- Mabuhay Satellite means Mabuhay Satellite Corporation, a 67%-owned subsidiary of PLDT;
- Maratel means PLDT Maratel, Inc., a 97.5%-owned subsidiary of PLDT;
- Meralco means Manila Electric Company;
- netGames means netGames, Inc., an 80%-owned subsidiary of ePLDT;
- NTC means the National Telecommunications Commission of the Philippines;
- NTT means Nippon Telegraph and Telephone Corporation;
- NTT Communications means NTT Communications Corporation, a wholly-owned subsidiary of NTT;
- NTT DoCoMo means NTT DoCoMo, Inc., a majority-owned and publicly traded subsidiary of Nippon Telegraph and Telephone Corporation;
- NTT-UK means NTT Communications Capital (UK) Ltd., a wholly-owned subsidiary of NTT Communications;
- NYSE means New York Stock Exchange;
- PAPTELCO means Philippine Association of Private Telephone Companies, Inc.;
- Parlance means Parlance Systems, Inc., a wholly-owned subsidiary of ePLDT;
- PFRS means Philippine Financial Reporting Standards;
- PGCI means Philippine Global Communications, Inc.;
- Philcom means Philcom Corporation;
- Philippine SEC means the Philippine Securities and Exchange Commission;
- PHC means PH Communications Holdings Corporation;
- Piltel means Pilipino Telephone Corporation, a 92.5%-owned subsidiary of Smart;
- PLDT Beneficial Trust Fund means the beneficial trust fund created by PLDT to pay the benefits under the PLDT Employees' Benefit Plan;
- PLDT Global means PLDT Global Corporation, a wholly-owned subsidiary of PLDT;
- PSE means the Philippine Stock Exchange;
- SBI means Smart Broadband, Inc., a wholly-owned subsidiary of Smart;
- SCH means Smart Connect Holdings Pte. Ltd., a wholly-owned subsidiary of Smart;
- SGP means Smart Connect Global Pte., Ltd., a wholly-owned subsidiary of Smart;
- SHI means Smart Hub Incorporated, a wholly-owned subsidiary of Smart;
- SIM means subscriber identification module;
- SMHC means Smart Money Holdings, Inc., a wholly-owned subsidiary of Smart;
- SMI means Smart Money, Inc., a wholly-owned subsidiary of SMHC;



- Smart means Smart Communications, Inc., a wholly-owned subsidiary of PLDT;
- SMS means short messaging service;
- SNMI means Smart-NTT Multimedia, Inc., a wholly-owned subsidiary of PLDT;
- SPi means SPi Technologies, Inc., a wholly-owned subsidiary of ePLDT;
- SPi Group means SPi and its subsidiaries;
- SubicTel means PLDT Subic Telecom, Inc., a wholly-owned subsidiary of PLDT;
- TSI means Telecommunications Solutions, Inc., a wholly-owned subsidiary of SMI;
- U.S. SEC means the U.S. Securities and Exchange Commission;
- VAS means value-added service;
- Ventus means ePLDT Ventus, Inc., a wholly-owned subsidiary of ePLDT;
- Vocativ means Vocativ Systems, Inc., a wholly-owned subsidiary of ePLDT;
- WAP means wireless application protocol;
- WCI means Wireless Card, Inc., a wholly-owned subsidiary of Smart;
- W-CDMA means wireless-code division multiple access; and
- Wolfpac means Wolfpac Mobile, Inc., a wholly-owned subsidiary of Smart.

## PART I – BUSINESS AND GENERAL INFORMATION

### Item 1. Description of Business

#### Overview

We are the leading national telecommunications service provider in the Philippines. Through our three principal business groups — wireless, fixed line, and information and communications technology — we offer a wide range of telecommunications services to approximately 37 million subscribers in the Philippines across the nation's most extensive fiber optic backbone and fixed line, cellular, broadband and satellite networks.

We are the leading fixed line service provider in the Philippines with over 60% of the total reported fixed line subscribers nationwide as at December 31, 2008. Smart, our wholly-owned subsidiary, is the leading cellular service provider in the country, with approximately 31% of total reported cellular subscribers as at December 31, 2008. In addition, Piltel, Smart's 92.5%-owned subsidiary, had approximately 21% of total reported cellular subscribers as at December 31, 2008. We have interests in the information and communications technology sectors, including customer interaction solutions, (formerly referred to as call center business), knowledge processing solutions, (formerly referred to as business process outsourcing), internet and online gaming services and the operation of *Vitro*<sup>TM</sup> data center.

Our common shares are listed and traded on the Philippine Stock Exchange, or PSE, and our American Depositary Shares, or ADSs, evidenced by American Depositary Receipts, or ADRs, are listed and traded on the NYSE in the United States. We had a market capitalization of approximately Php405,903 million (US\$8,341 million) as at February 28, 2009, representing one of the largest market capitalizations among Philippine-listed companies. For the year ended December 31, 2008, we had total consolidated revenues of Php145,582 million and net income attributable to equity holders of Php34,635 million.

We operate under the jurisdiction of the NTC, which jurisdiction extends, among other things, to approving major services that we offer and rates that we charge.

#### Business Groups

##### *Wireless*

We provide cellular, wireless broadband, satellite, and other services through our wireless business segment. Revenues from our wireless services accounted for 61%, 60% and 59% of our total consolidated revenues for the years ended December 31, 2008, 2007 and 2006, respectively.

Our cellular service, which accounted for about 94% of our wireless service revenues for the year ended December 31, 2008, is provided through Smart, Piltel and CURE. As measured by subscriber base, Smart is the leading cellular service provider in the Philippines, with 20,916,111 subscribers as at December 31, 2008, including 16,358 subscribers of CURE, representing a market share of approximately 31%. In addition, Piltel, primarily a reseller of Smart's GSM service with its own branding, had 14,308,493 subscribers as at December 31, 2008, representing an estimated market share of 21%, the second largest market share among all cellular brands in the Philippines. In 2008, the combined number of Smart's, Piltel's and CURE's subscribers increased by 5,183,574, or 17%, to 35,224,604 partly due to our continued expansion in the lower income segment of the Philippine wireless market, which overall resulted in a decrease in our average revenue per user, or ARPU, and the continuous introduction of innovative services. Cellular penetration in the Philippines continues to exceed expectations, reached over 75% as at December 31, 2008, which was more than 19 times the country's fixed line penetration, although the existence of subscribers owning multiple SIM cards overstates this penetration rate to a certain extent.

Smart's and Piltel's cellular subscriber gains were predominantly attributable to their respective prepaid services. Almost 99% of Smart's and all of Piltel's cellular subscribers as at December 31, 2008 were prepaid service subscribers. The predominance of prepaid service reflects one of the distinguishing characteristics of the Philippine cellular market. The growth in our prepaid service has enabled us to increase and broaden our subscriber base rapidly while controlling credit risk and reducing billing and administrative costs on a per-subscriber basis.

Our cellular subscriber growth has also been driven by text messaging. Text messaging is extremely popular in the Philippines, particularly on the prepaid platform, as it provides a convenient and inexpensive alternative to voice and e-mail based communications. Text messaging contributed significantly to Smart's cellular data service revenue growth in 2008, generating revenues of Php45,207 million, an increase of Php3,942 million, or 10%, over 2007.

Smart's cellular network is the most extensive in the Philippines, covering substantially all of Metro Manila and most of the other major population centers in the Philippines. Its dual-band GSM network allows it to efficiently deploy high capacity 1800 MHz base transceiver station, or BTS, in dense urban areas while its 900 MHz BTS can be much more economically deployed in potentially high growth, but less densely populated provincial areas. We have rolled out a 3G network based on a W-CDMA technology and currently upgrading our wireless broadband facilities. With 8,477 GSM base stations as at the end of December 2008, Smart's cellular network covers approximately 99% of all towns and municipalities in the Philippines, accounting for approximately 99% of the population.

### ***Fixed Line***

We are the leading provider of fixed line telecommunications services throughout the country. Our fixed line business group offers local exchange, international long distance, national long distance, data and other network and miscellaneous services. We had 1,782,356 fixed line subscribers as at December 31, 2008. Revenues from our fixed line services accounted for 32%, 33% and 36% of our total revenues for the years ended December 31, 2008, 2007 and 2006, respectively.

Our 6,400-kilometer long domestic fiber optic network, or DFON, is supported by an extensive digital microwave backbone. Our fixed line network reaches all of the major cities and municipalities in the Philippines, with a concentration in the Metropolitan Manila area. Our network offers the country's most extensive connections to international networks through two international gateway switching exchanges, satellite systems and various regional submarine cable systems in which we have interests. We are currently upgrading our fixed line facilities to NGN as well as expanding our DSL broadband facilities.

### ***Information and Communications Technology***

Through our wholly-owned subsidiary, ePLDT, we provide broad-based integrated information and communications technology, or ICT, services focusing on infrastructure and solutions for internet applications, IP-based solutions and multimedia content delivery. ePLDT's principal activities are the operation of an internet data center under the brand name *Vitro*<sup>™</sup>, customer interaction solutions, knowledge processing solutions, and internet and online gaming business. Revenues from our ICT services accounted for 7% of our total revenues for the years ended December 31, 2008 and 2007 and 5% in 2006.

### **Historical Background**

PLDT was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership: Philippine Telephone and Telegraph Company, which began operations in Manila in 1905; Cebu Telephone and Telegraph Company; Panay Telephone and Telegraph Company; and

Negros Telephone and Telegraph Company.

In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major stockholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, the First Pacific Group acquired a significant interest in PLDT. On March 24, 2000, NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (U.K.) Limited, or NTTC-UK, became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT simultaneous with NTT Communications' investment in PLDT, we acquired 100% of Smart. On March 14, 2006, NTT DoCoMo acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares while NTT Communications retained ownership of PLDT common shares with a similar 7% equity holding. Since March 14, 2006, NTT DoCoMo has made additional purchases of shares of PLDT's common stock and together with NTT Communications beneficially owned approximately 21% of the outstanding shares of PLDT's common stock as at February 28, 2009. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represents an attributable interest of approximately 6.4% of the then issued common shares of PLDT and thereby raised First Pacific Group's beneficial ownership to approximately 28% of PLDT's outstanding shares of common stock as at that date. First Pacific Group had beneficial ownership of approximately 26.37% in PLDT's outstanding common stock as at February 28, 2009. See Item 11. "Security Ownership of Certain Beneficial Owners, Directors and Officers — Change in Control" for further discussion.

PLDT's original franchise, which was granted in 1928, was last amended in 1991 which extended its effectivity until 2028. The amended franchise (Republic Act, or R.A., No. 7082), which became effective on August 24, 1991, also broadened PLDT's franchise to permit PLDT to provide virtually every type of telecommunications service. PLDT's franchise covers the business of providing basic and enhanced telecommunications services in and between the provinces, cities and municipalities in the Philippines and between the Philippines and other countries and territories including mobile, cellular, wired or wireless telecommunications system, fiber optics, multi-channel transmission distribution systems and their VAS such as but not limited to transmission of voice, data, facsimile, control signals, audio and video, information services bureau and all other telecommunications systems technologies, as are at present available or can be made available through technical advances or innovations in the future. See Item 3. "Legal Proceedings — Quo Warranto Action" for information regarding legal proceedings initiated by the Solicitor General with respect to PLDT's franchise.

## **Recent Developments**

### ***Acquisition of Debt and Equity of Philcom Corporation, or Philcom***

On January 2, 2009, PLDT and Premier Global Resources, or PGR, executed a Debt Assignment Agreement wherein PGR sold to PLDT for Php340 million, the outstanding obligations of Philcom to suppliers, banks and other financial institutions, or the Philcom Lenders, that PGR acquired from such Philcom Lenders with a nominal amount of Php3,540 million. Following the execution of the Debt Assignment Agreement, PLDT and Philcom executed a Restructuring Agreement wherein PLDT agreed to the restructuring of the Philcom obligations from the nominal amount of Php3,540 million to Php340 million. The restructured principal of Php340 million is payable by Philcom in ten equal annual installments starting on January 2, 2010. Interest on the restructured principal is payable on each payment date based on the floating rate of one year PDST-F plus a margin of 250 bps.

On January 3, 2009, PLDT, PGR and Philippine Global Communications, Inc., or PGCI, executed a Share Assignment Agreement wherein PGCI sold to PLDT all of the outstanding common shares of Philcom for a total consideration of Php75 million. PGR controls 55% of the shares of PGCI through a voting trust agreement. Both parties have filed the necessary application/petition for the approval of this transaction by the NTC. See *Note 11 – Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 7.

The acquisition of Philcom is expected to allow the PLDT Group to broaden its presence in Mindanao, where it has operations carried out under Maratel and SBI. This expanded presence is expected to benefit not only the existing subscribers in the area, but will also provide the communities in the area with an opportunity to access improved telecommunications facilities.

### ***Investment by Piltel in Meralco***

On March 12, 2009, FPHC, 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 Php20.07 billion, or Php90 per share, and (b) PLDT and the Lopez Group agreed on certain governance matters, including the right of PLDT or its designee to nominate certain senior management officers and members to the board of directors and board committees of Meralco. As part of the transaction, Piltel and the Lopez Group also entered into an exchangeable note agreement pursuant to which Piltel will purchase an exchangeable note to be issued by FPUC, with a face value of Php2 billion, exchangeable at Piltel's option into 22,222,222 shares of common stock of Meralco, which will constitute part of the approximately 20% of Meralco's shares of common stock to be acquired by Piltel in this transaction. The exchange option is exercisable simultaneously with the acquisition of such shares by Piltel.

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 4.5 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 in 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.

### ***Contemplated Consolidation of Cellular Business under Smart***

Subject to the approval of Piltel shareholders and regulatory agencies, we contemplate to consolidate our cellular business under Smart through a series of transactions, which would include: (a) the licensing for use of Piltel's "Talk 'N Text" brand to Smart for a lump sum royalty fee based on a percentage of projected net service revenues; (b) the transfer of Piltel's existing *Talk 'N Text* subscriber base to Smart in consideration of a one-time payment equivalent to the subscriber acquisition cost which Smart would have incurred for the acquisition of its own subscribers; and (c) the sale of Piltel's GSM fixed assets to Smart at net book value. In addition, Smart is currently evaluating a possible tender offer for shares of common stock of Piltel held by minority shareholders.

## Strategy

The key elements of our business strategy are:

- *Build on our leading positions in the fixed line and wireless businesses.* We plan to build on our position as the leading provider of fixed line service in the Philippines by continuing to launch new products and services to increase subscriber value and utilization of our existing facilities and equipment at reduced cost. We also plan to build on our position as the leading wireless service provider in the Philippines by continuing to introduce new products and services to increase our subscribers' use of our network for both voice and data, as well as their reliance on our services. We rolled out a 3G network based on a W-CDMA technology and are expanding our DSL and wireless broadband facilities. Our operating target is to continue growth in profitability by increasing our revenues while controlling our costs.
- *Capitalize on our strength as an integrated provider of telecommunications services.* We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to maximize revenue opportunities by bundling and cross-selling our products and services, and by developing convergent products that feature the combined benefits of voice and data, fixed line, wireless and ICT services utilizing our network and business platforms. We are also lowering our costs by integrating the operations of our different businesses.
- *Strengthen our leading position in the data and broadband market.* Leveraging on the inherent strength of our fixed line and wireless businesses, we are committed to further develop our fastest growing business segment – broadband, data and other network services. Consistent with our strategy of introducing innovative products and services using advanced technology, we have launched various products and services that address different market needs.
- *Maintain a strong financial position and improve shareholder returns.* In recent years, we have significantly improved our financial position by utilizing our cash flows principally for debt reduction. Our debt decreased to US\$1.6 billion as at December 31, 2008. As the cash flows generated by our businesses have increased and our leverage ratios have improved, we have been able to restore the payment of cash dividends to our common shareholders beginning 2005 and have increased our cash dividend payout ratio in 2006, 2007 and 2008. We expect that a greater proportion of our free cash flows in succeeding years will be utilized for the payment of cash dividends to common shareholders and investments in new growth areas while continuing to maintain a healthy balance sheet position. As part of our growth strategy, we made and may continue to make acquisitions and investments in companies or businesses. We will continue to consider value-accretive investments in related businesses such as those in the global outsourcing and off-shoring industry.

## Subsidiaries

As part of our competitive and overall development strategy, we have made strategic acquisitions and investments to further enhance our ability to provide not only basic telephony but also a wide range of value-added and enhanced services, as well as advanced and bundled services.

## *Wireless*

### *Smart*

In March 2000, PLDT acquired Smart in an all-stock transaction. Smart, currently the market leader in the high-growth cellular business, was acquired to further strengthen the PLDT Group's market leadership in the telecommunications sector. Combined with PLDT's existing fixed line business, the investment resulted to revenue-generating enhancements as well as cost efficiencies for the PLDT Group.

On April 25, 2008, Smart acquired the entire issued and outstanding capital stock of PHC and FHI, which collectively owned 100% equity interest in CURE for a total consideration of Php420 million. PHC and FHI owned 97% and 3%, respectively, of CURE. The acquisition follows Smart's plan to provide expanded and enhanced 3G services nationwide, including higher speed wireless broadband services. CURE is envisioned to provide Smart with a platform to offer and provide differentiated 3G services for niche markets.

On May 1, 2008, SBI acquired from ePLDT a 99.4% equity ownership in Airborne Access for a total consideration of Php25 million to strengthen and complement SBI's broadband internet service. As a result, Airborne Access' business was transferred from our ICT segment to the wireless segment.

On November 3, 2008, the Board of Directors of Piltel approved a share buyback program of up to 58 million shares in Piltel, representing approximately 0.5% of Piltel's outstanding common shares. As at December 31, 2008, Piltel has already purchased 44,586,000 shares at a cost of Php308 million, resulting in an increase in equity ownership by Smart in Piltel from 92.1% to 92.5%. In January 2009, Piltel completed the repurchase of 58 million shares earmarked for the share buyback program at a total cost of Php403 million. On March 2, 2009, Piltel's Board of Directors approved an increase in the number of common shares to be repurchased under the share buyback program of up to 25 million shares, through open market purchases, block trades or other modes subject to compliance with laws, rules and regulations.

In addition to the subsidiaries discussed above, Smart also holds equity interests in the following entities:

- a 92.5% interest in Piltel, a company that provides a prepaid GSM service through the *Talk 'N Text* brand, using the GSM platform of Smart. Until June 2008, Piltel also provided fixed line telecommunications services through its RTS and LEC networks in connection with E.O. 109;
- a 100% interest in SBI, which provides wireless broadband and data services under the brand name *Smart Bro* to residential consumers as well as small and medium-scale enterprises in the Philippines;
- a 100% interest in I-Contacts, which provides call center services;
- a 100% interest in Wolfpac, which is engaged in mobile applications development and services;
- a 100% interest in WCI, a company engaged in promoting the sale and/or patronage of debit and/or charge cards;
- a 100% interest in SHI, a corporation created to engage in software development and sale of maintenance and support services, particularly electronic money remittance services;

- a 100% interest in SMHC, an investment company currently holding equity interests in SMI and TSI;
- a 100% interest in SMI (through SMHC), engaged in mobile commerce solutions marketing;
- a 100% interest in TSI (through SMHC), engaged in developing mobile commerce platforms;
- a 100% interest in Far East Capital Ltd ., a company that provides cost-effective offshore financing and risk management activities for Smart;
- a 100% interest in SCH, an investment holding company, currently owning equity interests in SGP and 3<sup>rd</sup> Brand;
- a 100% interest in SGP (through SCH), which is engaged in international trade of satellites and GSM enabled global telecommunications services; and
- a 85% interest in 3<sup>rd</sup> Brand (through SCH), which is engaged in providing solutions and system integration services.

For a more detailed discussion on these acquisitions, please see *Note 11 – Goodwill and Intangible Assets* to the accompanying audited financial statements in Item 7.

#### *Mabuhay Satellite*

Mabuhay Satellite, incorporated on November 10, 1994, is engaged in the control and operation of Agila 2 satellite, the Philippines' first communication satellite. Agila 2 satellite commenced commercial operations in January 1998. Mabuhay Satellite leases satellite space segments in both the C and Ku-Bands on the Agila 2 satellite. Through the Agila 2 satellite, Mabuhay Satellite offers to providers of internet backbone access, and video and data broadcasting services, and also provides bandwidth-on-demand, facilitating communication links between telecommunications, broadcast and other public utility companies operating in the Asia-Pacific region.

In February 2001, Mabuhay Satellite received a certification from the U.S. Federal Communications Commission, or FCC, for its Agila 2 satellite, establishing it as the first Asian satellite on the FCC's "Permitted Space Station" list. Agila 2 satellite then joined six other non-U.S. satellites on the select list. The granting of the certification indicates that Agila 2 satellite fully complies with the FCC's technical requirements and allows U.S.-owned and operated earth stations in Hawaii to access Agila 2 satellite.

On September 16, 2008, Mabuhay Satellite entered into a wholesale transponder lease agreement with ProtoStar and ProtoStar III, wherein the parties agreed that Mabuhay Satellite shall, subject to fulfillment of certain closing conditions, lease to ProtoStar III the transponders on the Agila 2 satellite and assign, transfer and convey to the ProtoStar III Branch its customer contracts, the ground facilities and equipment, the real property leases, the Agila 2 satellite and all other assets of Mabuhay Satellite relating to the business for a consideration of 32,490,975 Series C Preferred Shares of ProtoStar with a par value of US\$0.001 per share, full settlement of all of the amounts due from Mabuhay Satellite under the Omnibus Credit and Security Agreement and a one time payment on the closing date of US\$1.4 million. The lease period of the transponders would be from closing date, as defined in the agreement, to the earlier of the end of life of the Agila 2 satellite or to the date when Mabuhay Satellite assigns, transfers and conveys to the ProtoStar III Branch all of its rights, title and interest in the Agila 2 satellite provided certain conditions are satisfied.



### *ACeS Philippines*

ACeS Philippines, incorporated on October 24, 1995, owns approximately 36.99% of AIL. AIL aims to develop and implement a satellite-based communications system to provide services to users in the Asia-Pacific region through the Garuda I satellite, or ACeS System and ACeS Service. AIL has entered into interconnection agreements and roaming service agreements with PLDT and other major telecommunications operators that will allow ACeS service subscribers to access terrestrial cellular systems in addition to the ACeS System. Further, AIL has an amended Air Time Purchase Agreement, or ATPA, with National Service Providers in Asia, including PLDT. For further discussion regarding the ATPA, please see *Note 24 – Contractual Obligations and Commercial Commitments* and *Note 22 – Related Party Transactions* to the accompanying audited consolidated financial statements in Item 7.

As part of the consolidation process of the PLDT Group's wireless business, ACeS Philippines' operation is being managed by Smart. This operational arrangement effectively gives Smart the widest service coverage in the Philippines through the combination of ACeS Philippines satellite phone service and Smart's cellular service.

### ***Fixed Line***

#### *ClarkTel*

ClarkTel was incorporated on January 28, 1997. It was previously a joint venture between PLDT, owning 60%, and Clark Development Corporation, or CDC, holding the remaining 40%. In August 1999, CDC ceded its 40% ownership interest in ClarkTel to PLDT, thus, making ClarkTel a wholly-owned subsidiary of PLDT. ClarkTel provides basic and enhanced telecommunications services within the Clark Special Economic Zone, or CSEZ, in Clark Field, Pampanga, and between the CSEZ and other cities and municipalities in the country as well as other countries and territories worldwide.

#### *Maratel*

In June 2001, PLDT acquired 2,439,060 common shares of Maratel, representing 92.3% of Maratel's issued and outstanding common stock, for a total consideration of Php451.3 million. In 2003, PLDT acquired an additional 134,237 common shares of Maratel for a consideration of Php1.3 million, thereby increasing PLDT's ownership interest in Maratel to 97.5%. Additional shares acquisition in 2006 and 2007 further increased PLDT's ownership in Maratel to 97.8%. Maratel, incorporated on August 10, 1951, is a franchised operator of telecommunications services in the province of Lanao del Norte and the cities of Iligan and Marawi. The acquisition of a controlling interest in Maratel has improved PLDT's existing coverage in Mindanao and strengthened its competitive position in the southern part of the country.

#### *SubicTel*

In June 1994, PLDT entered into a joint venture agreement with AT&T and the Subic Bay Metropolitan Authority, or SBMA, to form SubicTel. In November 1999, PLDT acquired SBMA's 20% ownership interest in SubicTel for a purchase price of Php180 million, increasing PLDT's stake in SubicTel from 40% to 60%. On February 16, 2001, PLDT also acquired AT&T's 40% stake in SubicTel for a consideration of US\$8 million. Consequently, SubicTel became a wholly-owned subsidiary of PLDT. SubicTel, incorporated on September 28, 1994, is now operating a state-of-the-art telecommunications system at the Subic Special Economic and Freeport Zone, a former U.S. naval base that is now home to various multinational companies.

## *SNMI*

On March 24, 2000, PLDT entered into a Stock Purchase Agreement with NTT Communications to purchase NTT Communications' 40% ownership interest in SNMI. This stock purchase transaction was consummated on April 25, 2000. Subsequently, PLDT also acquired Smart's 60% interest in SNMI, which became a wholly-owned subsidiary of PLDT upon completion of this transaction on August 14, 2000. SNMI, incorporated on April 29, 1997, was engaged in providing customized integrated telecommunications solutions to high-volume corporate users. SNMI's board of directors and stockholders approved the indefinite suspension of its business operations effective March 31, 2003. SNMI's operations were absorbed by the corporate business group of PLDT.

## *BCC*

In 2002 and 2003, PLDT entered into a separate Deed of Assignment of Subscription with Smart and Fort Bonifacio Development Corporation, or FBDC, where Smart and FBDC assigned, transferred and conveyed in favor of PLDT their total subscription of 750,000 common shares and 750,000 preferred shares of BCC and all their interest and rights therein for a total consideration of Php93 million. The assignment included a subscription payable of Php68 million. The shares represent 75% of the subscribed capital stock of BCC.

BCC was incorporated primarily to own, construct, establish, maintain, lease and otherwise operate, to the extent allowed by law, communication infrastructure and to provide related services, including but not limited to, VAS, within the Fort Bonifacio Global City and Villamor Air Base.

## *PLDT Global*

PLDT Global, a wholly-owned subsidiary, was incorporated on December 15, 2000 in the British Virgin Islands, to position PLDT as a full service global telecommunications player through a strategy of establishing presence in key countries with substantial Overseas Filipino Professionals or Workers. The following are wholly-owned subsidiaries of PLDT Global:

- *PLDT (HK) Limited* is an External Fixed Telecommunications Network Services and Public Non-Exclusive Telecommunications Service license holder that offers wholesale termination, remittance, and enterprise solutions. *PLDT 1528 Limited*, the retail arm and wholly-owned subsidiary of PLDT (HK) Limited, is a reseller of virtual mobile operations and registered remittance agency in Hong Kong, SAR;
- *PLDT (SG) Pte Limited* is a licensed service-based operator that provides wholesale voice services in Singapore. Its wholly-owned subsidiary, *PLDT (SG) Retail Service Pte Limited*, is a licensed Mobile Virtual Network Operator that offers prepaid mobile services in Singapore;
- *PLDT (US) Limited* is a licensed international common carrier that provides a range of Private Line solutions to its enterprise customers;
- *PLDT Online, Inc.* is incorporated in the British Virgin Islands and specializes in selling wholesale and retail products and services through an online portal;
- *PLDT (UK) Limited* is a licensed public telephone carrier that specializes in registered home accounts and enterprise solutions;
- *PLDT Italy S.r.l.* is incorporated principally to carry out virtual mobile operations services as an Enhanced Service Provider in Italy; and
- *PLDT Taiwan Limited* is licensed to engaged in international trade, IT software service, data processing service, electronic information provision service and telephone retail

service.

### *Philcom*

On January 2, 2009, PLDT signed a Debt Assignment Agreement with Premier Global Resources Corporation, or PGR, wherein PGR sold to PLDT, for a total consideration of Php340 million, all of the outstanding obligations of Philcom to suppliers, banks and other financial institutions, or the Philcom Lenders, which PGR had acquired from the Philcom Lenders.

On January 3, 2009, PLDT signed a Share Assignment Agreement with PGCI wherein the latter sold, transferred and conveyed in favor of PLDT its rights, title and interest in and to all of the outstanding shares of common stock in Philcom for a total consideration of Php75 million. The parties have filed the necessary application/petition for the approval of this transaction by the NTC.

The acquisition of Philcom will allow the PLDT Group to broaden its presence in Mindanao, where it already has operations carried out under Maratel and SBI. This expanded presence is expected to benefit not only the existing subscribers in the area, but will also provide the communities in the area with an opportunity to access improved telecommunications facilities.

### ***Information and Communications Technology***

#### *ePLDT*

ePLDT is engaged in information and communications technology businesses, focusing on enabling infrastructure and services for internet applications, IP-based solutions and multimedia content delivery.

ePLDT is also engaged in providing knowledge processing solutions through SPi and its direct and indirect Philippine and offshore subsidiaries which ePLDT acquired on July 11, 2006. SPi's services include editorial and content production, digital content conversion, pre-press project management, litigation support and conversion of medical records/data from handwritten or speech format to electronic format. On August 11, 2006, ePLDT, through its direct subsidiary SPI, acquired 100% of CyMed, Inc., a leading medical transcription company based in Richmond, Virginia U.S.A. On April 12, 2007, SPI acquired, through a wholly-owned U.S.A. subsidiary, 100% of Springfield Service Corporation, or Springfield, one of the largest players in the medical billing and revenue cycle management market.

ePLDT is focused on developing its customer interaction solutions which capitalize on the availability of English-speaking college graduates in the Philippines with a strong customer service orientation. ePLDT has established one umbrella brand name, *ePLDT Ventus*, for all of its customer interaction solution businesses, including Vocativ and Parlance. *Ventus* provides offshore contact center outsourcing solutions specializing in inbound customer care. Vocativ provides customer and technical support to its clients in the Philippines, United States and the United Kingdom, while Parlance provides exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the United States. In total, we own and operate approximately 6,580 seats with 5,800 customer service representatives, or CSRs, as at December 31, 2008 compared to approximately 6,400 seats with 5,930 CSRs as at December 31, 2007. In each of the years 2008 and 2007, *ePLDT Ventus* had seven customer interaction solution sites.

ePLDT also operates an internet data center under the brand name *Vitro*<sup>TM</sup>. Granted by the Philippine Board of Investments pioneer status as an Internet Data Center, *Vitro*<sup>TM</sup> provides co-location 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 IP security services such as firewalls and managed

firewalls.

ePLDT also currently holds equity interests in the following entities:

- a 100% interest in mySecureSign, Inc., a principal affiliate of VeriSign, Inc., which is the largest certification authority and issuer of digital certificates worldwide;
- a 100% interest in iPlus Intelligent Network, Inc., which provides IT helpdesk/contact center solutions;
- a 99.6% interest in Infocom, one of the country's leading internet service providers, or ISPs. Infocom offers consumer prepaid and postpaid internet access, corporate leased lines, dedicated dial-up, multi-user dial-up, broadband internet access through *DSL*; web consulting, development, hosting and other VAS. In addition, Infocom, through its Customer Service Outsourcing Group, handles PLDT group's nationwide technical helpdesk operations;
- an 87.5% interest in DigiPar Thailand, an affiliate of Digital Paradise;
- an 80% interest in netGames, a publisher for Massively Multi-player Online Games in the Philippines;
- a 75% interest in Digital Paradise, an internet café business with the brand *Netopia*;
- a 60% interest in Level Up!, a leading publisher of online games in the Philippines. Level Up! was acquired on February 16, 2006;
- a 50% interest in ePDS, a bills printing company engaged in laser printing and enveloping services for statements, bills and invoices and other VAS to companies in the Philippines;
- a 45.11% equity interest in BayanTrade, an e-procurement joint venture established together with six of the Philippines' leading conglomerates; and
- a 26.87% equity interest in Philweb, a company primarily engaged in internet-based gaming and appointed as Principal Technology Service Provider under an agreement with the Philippine Amusement and Gaming Corporation.

For more information on investments, see *Note 9 – Investments in Associates and Joint Ventures* to the accompanying audited consolidated financial statements in Item 7.

## **Products and Services, Rates and Revenues**

### ***Wireless***

We provide cellular and wireless broadband, satellite and other services through our wireless business segment.

## Cellular Service

The following table summarizes key measures of Smart's, Piltel's and CURE's cellular business as at and for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
Systemwide cellular subscriber base	35,224,604	30,041,030	24,175,384
Smart	20,899,753	20,339,204	17,201,005
Prepaid	20,501,617	19,997,324	16,882,442
Postpaid	398,136	341,880	318,563
Piltel <sup>(1)</sup>	14,308,493	9,701,826	6,974,379
CURE (acquired on April 25, 2008)	16,358	–	–
Growth rate of cellular subscribers	17%	24%	18%
Smart	3%	18%	12%
Piltel <sup>(1)</sup>	47%	39%	40%
CURE	100%	–	–
Cellular service revenues (in millions)	Php87,518	Php82,334	Php75,605
Voice	37,287	36,105	35,221
Data	47,792	44,092	38,672
Others <sup>(2)</sup>	2,439	2,137	1,712
Percentage of cellular service revenues to total wireless service revenues	94%	95%	96%
Percentage of cellular service revenues to total service revenues	57%	57%	56%

<sup>(1)</sup> Represents Talk 'N Text, a prepaid service provided by Piltel using Smart's network. Piltel's revenue is net of service fees payable to Smart for using Smart's network. Piltel does not offer postpaid service.

<sup>(2)</sup> Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, revenues from Smart's public calling offices and a small number of leased line contracts, revenues from Wolfpac and other Smart subsidiaries, and revenue share in PLDT's WeRoam and PLDT Landline Plus services.

**Service Plans.** Smart markets nationwide cellular communications services under the brand names *Smart Buddy*, *Smart Gold*, and *Smart Infinity*. *Smart Buddy* is a prepaid service while *Smart Gold*, and *Smart Infinity* are postpaid services, which are all provided through Smart's digital network. Piltel markets its cellular prepaid service under the brand name *Talk 'N Text*, which is also provided through Smart's network.

Smart and Piltel have focused on segmenting the market by offering sector-specific, value-driven packages for its prepaid subscribers. These include new varieties of our top-up service which provide a fixed number of messages with prescribed validity periods and call packages which allow a fixed number of minutes or calls of preset duration. Starting out as purely on-network packages, Smart's and Piltel's top-up services now offer text message bundles available to all networks. Smart also continues to offer *Smart 258*, a registration-based service which offers unlimited on-network text messaging in various load denominations with designated expiration periods.

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

**Voice Services.** Cellular voice services comprise all voice traffic and voice VAS such as voice mail and international roaming. Voice services remains a significant contributor to wireless revenues, generating a total of Php37,287 million, or 43%, and Php36,105 million, or 44%, of cellular service revenues in 2008 and 2007, respectively. Local calls continue to dominate outbound traffic with 57% of total minutes originating from our cellular service. In 2008, traffic volumes from domestic calls totaled 3,810 million minutes compared to 3,799 million minutes in 2007. Outbound international long distance traffic remained at 3%, while inbound international long distance traffic accounted for 40% of total minutes with 221 million minutes and 201 million minutes generated in 2008 and 2007, respectively. The ratio of inbound-to-outbound international long distance minutes was 12.1:1 for 2008,

compared to 11.7:1 in 2007.

*Data Services.* Cellular revenues from data services include all text messaging-related services and other data VAS. The Philippines cellular market is one of the most text messaging-intensive markets in the world, totaling more than a billion text messages per day. Text messaging is extremely popular in the Philippines, particularly on the prepaid platform, as it provides a convenient and inexpensive alternative to voice and e-mail based communications. Text messaging also utilizes less network capacity than voice, thereby increasing network efficiency.

Text messaging has been one of the key drivers for our cellular subscriber growth. Strong volume growth in text messaging contributed significantly to Smart's cellular revenue growth in 2008, generating revenues of Php47,792 million, an increase of Php3,700 million, or 8%, over 2007. In 2008, Smart and Piltel's text messaging systems handled over 24,378 million outbound messages on standard SMS services with another 223,373 million messages generated by bucket-priced text services. This compares to 25,492 million outbound messages on standard SMS services in 2007 and 199,326 million outbound messages generated through bucket-priced text service.

We launch from time to time various promotions to stimulate usage and subscriber growth. Smart launched a series of promotions to test the market demand for fixed rate or “bucket” plans for voice and text. In 2006, Smart introduced low-denomination text packages which were further refined in 2007 and 2008 as Smart focused on further segmenting its market by offering sector-specific, value-driven packages. As a result, Smart continued to successfully defend its market leadership through innovative voice and text packages that drive activations, boost usage and strengthen brand equity.

The success of text messaging is a strong indicator of future data usage potential in this market. In 2008, approximately 55% of Smart's cellular revenues were derived from data usage, compared with 54% and 51% in 2007 and 2006, respectively.

Smart also offers the following value-added cellular services:

- *Smart Money*, launched in conjunction with MasterCard, enables subscribers to pay for their purchases by transferring money from their bank accounts to their Smart Money cards, reload their prepaid cards electronically, as well as download specialized content such as ringtones, logos, caller ringback tunes and games;
- *Mobile Banking*, launched in collaboration with various banks, allows subscribers to execute banking transactions such as balance inquiries and transfers over their mobile telephones; and
- *Smart Padala*, one of the many innovative initiatives from our Smart Money platform, is the first cash remittance service through text and is faster and cheaper than traditional remittance arrangements. It was launched initially as an international remittance service for overseas Filipino workers but is now available for domestic remittances as well.

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

Due to the high level of text messaging service usage, we believe that the Philippine market is well suited for text-based informational and e-commerce services. Our current approach is to continue maximizing our GSM, or 2G, services while upgrading our network to Enhanced Data for GSM

Evolution, or EDGE. EDGE is a technology that would further increase the speed and data capability of our GSM network. In addition, on December 29, 2005, Smart was awarded a 3G license by the NTC after being ranked highest by the NTC in garnering a perfect score on a 30-point grading system designed to gauge the capability of telecommunication operators to effectively provide extensive 3G services. As a result of being ranked highest, Smart received the largest radio frequency allocation of 15 MHz as well as first choice of frequency spectrum. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrum, the range that would best enable it to deploy its 3G network nationwide and at the same time offer the highest quality of 3G service.

#### *Rates and Discounts*

Our current policy is to recognize a prepaid subscriber as “active” only when the subscriber activates and uses the SIM card and reloads it at least once during the month of initial activation or in the immediately succeeding month. A prepaid cellular subscriber is disconnected if the subscriber does not reload within four months after the full usage or expiry of the last reload.

*Smart Buddy* and *Talk ‘N Text* Call and Text prepaid cards are sold in denominations of Php300 and Php500 which include 33 and 83 free text messages, respectively. We also recently introduced a Php100 denomination that contains Php100 worth of air time with a validity period of 10 days, while the stored value of a prepaid card remains valid for a period from the time a subscriber activates the card. We launch from time to time promotions with shorter validity periods. The introduction of our “over-the-air” electronic loading facility *Smart Load* in 2003 made reloading of air time credits more convenient and accessible for consumers. *Smart Load’s* over-the-air reloads have evolved to respond to market needs and now come in denominations of Php15, Php30, Php50, Php60, Php115, Php200, Php300 and Php500 with corresponding expiration periods.

*Smart Load* was followed by *Pasa Load*, a derivative service, allowing prepaid subscribers to transfer even smaller denominations to other prepaid subscribers.

*Smart Buddy* subscribers are charged Php6.50 per minute for calls to *Smart Buddy* and *Talk ‘N Text* subscribers and Php7.50 per minute terminating to other cellular or fixed line networks. *Talk ‘N Text* calls to *Talk ‘N Text* subscribers are charged Php5.50 per minute while calls to *Smart Buddy* and other cellular fixed line subscribers are charged Php6.50 per minute.

We offer both flat rate, or regular, and consumable postpaid plans with monthly service fees ranging from Php500 to Php5,000. These plans are available with varying amounts of free air time and text messages and different rates beyond the free minutes and text messages, depending on the monthly service fee. Monthly service fees for flat rate, or regular, plans are applicable only to local calls and text messages and for consumable plans to all voice calls, text messages (both local and international) and VAS.

Smart is permitted to adjust its cellular air time and national direct dial rates according to changes in the peso-to-U.S. dollar exchange rate. Under the authorization granted to Smart by the NTC, Smart is permitted to increase and is required to decrease its air time and national direct dial rates by 1% for every Php0.25 change in the exchange rate relative to a base rate of Php24.726 to US\$1.00. However, Smart has not implemented any foreign currency adjustments to its rates since November 4, 1998 because of the concern that increased rates may result in decreased usage or switching to other cellular providers by its subscribers.

All Smart subscribers pay an international direct dialing rate of US\$0.40 per minute. This rate applies to 201 destinations, including the United States, Hong Kong, Japan, Singapore, the United Kingdom and the United Arab Emirates. Smart charges US\$0.98 per minute for 27 other destinations and US\$2.18 per minute for another ten destinations.

We sell our cellular services primarily through a network of independent dealers and distributors that generally have their own retail networks, direct sales forces and sub-dealers. We currently have nine major dealers, two of which are exclusive. These dealers include major distributors of cellular handsets whose main focus are telecommunications outlets. Account managers from our sales force manage the distribution network and regularly update these business partners on upcoming marketing strategies, promotional campaigns and new products introductions. With the introduction of *Smart Load* in 2003, Smart moved into a new realm of distribution. These over-the-air reloads, which were based on the “sachet” marketing concept of consumer goods such as shampoo and ketchup, required a distribution network that approximates those of fast-moving consumer goods companies. Starting with just 50,000 outlets when it was launched, *Smart Load*'s distribution network now encompasses approximately one million retail agents, 80% of which are micro businesses (e.g., neighborhood stores, individual entrepreneurs, individual roving agents). These micro-retailers must be affiliated with any of Smart's authorized dealers, distributors, sub-dealers or agents. With the prepaid reloading distribution network now extended to corner store and individual retailer levels and minimum reloading denominations as low as Php10, Smart's prepaid service became even more affordable and accessible to subscribers.

For prepaid services, we grant discounts to dealers for prepaid phone kits, air time cards and over-the-air reloads sold. Smart and Piltel compensate dealers with Php800 in cash per prepaid phone kit sold. An additional 1% discount based on the suggested retail price is given on cash purchases. Air time cards and over-the-air reloads are sold to distributors at volume discounts determined by the value of the cards purchased by the distributors. Discounts given for air time cards sold range from 8% to 8.4% while discounts on over-the-air reloads range from 2.5% to 5%. Air time cards cannot be returned or refunded and normally expire within six to 12 months after release from the Smart warehouse.

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

##### *Overview*

We currently provide wireless broadband, satellite and other services through SBI; our wireless broadband provider, Wolfpac; and our wireless content operators, Mabuhay Satellite, and ACeS Philippines.

##### *SBI*

Through SBI, we are engaged in providing wireless broadband and data services under the brand name *Smart Bro* to residential consumers as well as small and medium-scale enterprises in the Philippines. As at December 31, 2008, SBI had 547,090 wireless broadband subscribers. *Smart Bro* aims to strengthen Smart's position in the wireless data segment and complements PLDT's *myDSL* service in areas where the latter is not available. In 2008, SBI generated total revenues of Php4,751 million and posted a net income of Php1,157 million.

##### *Airborne Access*

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

##### *Wolfpac*

Through Wolfpac, we are engaged in the business of consumer mobile applications software development and consumer mobile content development and other allied services. In 2008, Wolfpac generated total revenues of Php124 million and posted a net income of Php60 million.



### *PLDT WeRoam*

We also offer *PLDT WeRoam*, or *WeRoam*, a wireless prepaid or postpaid broadband service running on the PLDT Group's nationwide wireless network (using 2G, 3G/HSDPA and WiFi technologies). In 2008, PLDT WeRoam contributed Php203 million to our data revenues. In 2008, PLDT WeRoam contributed Php203 million to our data revenues.

### *Mabuhay Satellite*

Mabuhay Satellite is engaged in the control and operation of Agila 2 satellite. Commercial operations commenced in January 1998 and Agila 2 satellite was the Philippines' first communication satellite. Mabuhay Satellite leases satellite space segments in both the C and Ku bands on the Agila 2 satellite. Through the Agila 2 satellite, Mabuhay Satellite offers to providers of internet backbone access, and video and data broadcasting, and also provides bandwidth-on-demand, facilitating communication links between telecommunications, broadcast and other public utility companies operating in the Asia-Pacific region. In 2008, Mabuhay Satellite generated total revenues of Php934 million and posted a net loss of Php30 million.

### *ACeS Philippines*

ACeS Philippines currently owns approximately 36.99% of AIL. AIL provides satellite-based communications to users in the Asia-Pacific region through the Garuda I satellite, or ACeS System and ACeS Service. AIL has entered into interconnection agreements and roaming service agreements with PLDT and other major telecommunications operators that allow ACeS service subscribers to access GSM terrestrial cellular systems in addition to the ACeS system. Further, AIL has an ATPA with National Service Providers in Asia, including PLDT. In 2008, ACeS Philippines generated total revenues of Php451 million and posted a net income of Php272 million. For further discussion regarding the ATPA, please see *Note 22 – Related Party Transactions* and *Note 24 – Contractual Obligations and Commercial Commitments* to the accompanying audited consolidated financial statements in Item 7.

As part of the consolidation process of the PLDT Group's wireless business, ACeS Philippines' operation has been integrated into Smart. This operational arrangement effectively gives Smart the widest service coverage in the Philippines through the combination of the coverage of ACeS Philippines with Smart's cellular service.

### *Revenues*

Our revenues from wireless broadband, satellite, and other services consist of wireless broadband service revenues for SBI, rental payments received for the lease of Mabuhay Satellite's transponders, charges for ACeS Philippines' satellite information and messaging services, service revenues generated from PLDT Global's subsidiaries, and revenues generated from Wolfpac for wireless data content.

### *Rates*

SBI offers its wireless broadband and data services to residential consumers as well as small and medium-scale enterprises. The wireless broadband service for residential consumers is branded as *Smart Bro* and offers a maximum speed of 384 kbps for Php999 per month. Monthly service fees for corporate data services range from Php999 to Php180,000 depending on connection speed. The monthly service fee for users of *Smart Bro Plug-It*, a new service introduced in November 2007, is Php799 which includes 40 hours per month of free internet usage. Users also incur a one-time charge for the *Smart Bro Plug-It* modem of Php1,200.

Wolpac generates revenues from SMS subscriptions, institutional services and downloadable contents. The subscription price for the SMS subscription and institutional services is pegged at Php2.50 per SMS, while for downloadable content ranges from Php10.00 to Php30.00.

*WeRoam* postpaid offers several packages for its wireless broadband service that include unlimited internet or VPN access with speeds ranging from 40 kbps to 1.8 Mbps with monthly recurring fees of Php1,000, Php1,300 or Php1,500 depending on the type of plan selected.

*WeRoam* prepaid offers several packages that include the Mobile Data Card and an air time value for three, six and 12 months with monthly subscription fees based on an initial air time value ranging from Php6,170 to Php18,930. Once the initial air time value expires, continued use of the service requires *WeLoad* or reloading of additional air time value with different denominations and expiration periods.

Mabuhay Satellite leases its transponders to third parties at average annual rates of approximately US\$0.9 million and approximately US\$0.7 million for its C-band and Ku-band transponders, respectively. ACeS mobile service subscribers are charged Php13.84 per minute for local and cell-to-cell calls and for national direct dial services, while residential subscribers are charged peak-hour rates of Php13.00 per minute and off-peak hour rates of Php8.00 per minute for domestic calls regardless of destination. For ACeS System public calling offices, callers are charged Php4.50 and Php7.00 per minute for calls terminating to fixed line and cellular networks, respectively. Rates for international long distance calls depend on the country of termination, and range from US\$0.35 per minute for frequently called countries to US\$0.85 per minute for less frequently called countries.

### ***Fixed Line***

We provide local exchange, international long distance, national long distance, data and other network and miscellaneous services under our fixed line business segment.

We offer postpaid and prepaid fixed line services. Initially intended as an affordable alternative telephone service for consumers under difficult economic conditions, our prepaid fixed line services now form an important part of our overall churn and credit risk exposure management strategy. In March 2007, PLDT launched *PLDT Landline Plus*, a postpaid fixed wireless service where subscribers to the service benefit from a text-capable home phone. This service is primarily intended for subscribers in areas where PLDT has no facilities and is expected to increase our fixed line subscriber base. In March 2008, we introduced the prepaid counterpart of *PLDT Landline Plus*.

### ***Local Exchange Service***

Our local exchange service, which consists of our basic voice telephony business, is provided primarily through PLDT. We also provide local exchange services through our subsidiaries ClarkTel, SubicTel, Maratel and Piltel, prior to PLDT's acquisition of Piltel's fixed line assets on June 4, 2008. Together, these subsidiaries account for approximately 2% of our consolidated fixed line subscribers.

The following table summarizes key measures of our local exchange service as at and for the years ended December 31, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Number of local exchange line subscribers	1,782,356	1,724,702	1,776,647
Number of fixed line employees	7,813	8,080	8,711
Number of local exchange line subscribers per employee	228	213	204
Total local exchange service revenues (in millions)	Php15,923	Php16,205	Php16,965
Local exchange service revenues as a percentage of total fixed line service revenues	32%	33%	34%
Local exchange service revenues as a percentage of total service revenues	10%	11%	13%

## *Rates*

As at December 31, 2008, basic monthly charges for our local exchange service in the Metropolitan Manila area were Php592.63 for a single-party residential line and Php1,234.02 for a single business line. Monthly charges vary according to the type of customer (business or residential) and location, with charges for urban customers generally being higher than those for rural/provincial customers. Regular installation charges amount to Php1,200 for residential customers and Php1,500 for business customers. New products launched on promotion or products bundled on existing services usually waive the installation fee or allow for a minimal installation fee of Php500. Aside from the basic monthly charges, we charge our postpaid subscribers separately for NDD, IDD and calls to mobile phones. Calls to PLDT and other landlines within a local area code are free.

Our prepaid fixed line customers generally do not pay a basic monthly charge and are charged based on usage. Subscribers of *TelePwede*, our upgraded prepaid fixed line service, are charged a monthly fee of Php115 per month to receive unlimited incoming calls and are charged per usage for outgoing calls. The *TelePwede* installation fee is Php1,500, including Php127 of preloaded value. Our prepaid *PLDT Landline Plus* subscribers can choose from two monthly service fee options or plans and are charged for outgoing local, NDD and IDD calls depending on the amount of plan they subscribe to. For a detailed description of these rates, see “— International Long Distance Service — Rates” and “— National Long Distance Service — Rates.”

The monthly service fee for our *PLDT Landline Plus* service is available in load denominations of Php300, Php600 and Php1,000 for residential and business subscribers and includes 150, 600 and 1,000 free local minutes, respectively.

Pursuant to a currency exchange rate adjustment, or CERA, mechanism authorized by the NTC, we are required to adjust our postpaid monthly local service rates upward or downward by 1% for every Php0.10 change in the peso-to-dollar exchange rate relative to a base rate of Php11.00 to US\$1.00. In 2008, we have not made any adjustment in our monthly local service rates, while there were five downward adjustments and one upward adjustment in 2007. The average Philippine peso to U.S. dollar rate factored in our monthly local service rates in 2008 was Php49.76 to US\$1.00, compared to an average of Php48.67 to US\$1.00 in 2007. This change in the average peso-to-dollar rate translated to a peso depreciation of 2%, which resulted in a net increase of approximately 2% in our average monthly local service rates in 2008. In its letter dated July 16, 2007, the NTC has approved our request to use annual average exchange rates as our basis in CERA computation instead of the currently used monthly averages.

In the first quarter of 2005, House Bill, or HB, No. 926 was filed and is pending in the House of Representatives of the Philippines. The proposed bill provides for the cancellation of the currency exchange rate mechanism currently in place. If this bill is passed into law or if the NTC issues guidelines to change the basis of the currency exchange rate mechanism, our ability to generate U.S. dollar-linked revenues from our local exchange business could be adversely affected.

## *International Long Distance Service*

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

The following table shows certain information about our international long distance business for the years ended December 31, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total call volumes (million minutes)	2,024	2,280	2,177
Inbound call volumes (million minutes)	1,786	2,007	1,984
Outbound call volumes (million minutes)	238	273	193
Inbound-outbound call ratio	7.5:1	7.4:1	10.3:1
Total international long distance service revenues (in millions)	Php7,063	Php8,674	Php9,933
International long distance service revenues as a percentage of total fixed line service revenues	14%	18%	20%
International long distance service revenues as a percentage of total service revenues	5%	6%	7%

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

We have been pursuing a number of initiatives to strengthen our international long distance service business, including by: (a) lowering our inbound termination rates, (b) identifying and containing unauthorized traffic termination on our network, (c) being more selective in accepting incoming traffic from second- and third-tier international carriers, and (d) introducing a number of marketing initiatives, including substantial cuts in international direct dialing rates, innovative pricing packages for large accounts and loyalty programs for some customers. In addition, through PLDT Global, we aggregate inbound call traffic to the Philippines at our points of presence and, using our capacity in submarine cable systems connected to each point of presence, transmit calls to our network. PLDT Global is also enhancing the presence of PLDT in other international markets by offering new products and services such as international prepaid cards, mobile services, SMS transit wholesale termination and other global bandwidth services. We believe these strategies will help us maximize the use of our existing international facilities, and develop alternative sources of revenue.

The table below sets forth the net settlement amounts for international calls handled by PLDT, by country, for the years ended December 31, 2008, 2007 and 2006:

	<b>Net Settlement</b>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(in millions)		
United States	US\$46	US\$55	US\$54
Saudi Arabia	30	28	27
United Arab Emirates	20	18	15
Japan	14	12	12
Canada	9	17	18
Taiwan	6	6	4
Ireland	6	5	2
Italy	5	10	11
Singapore	5	3	1
Others	33	42	41
Total	<u>US\$174</u>	<u>US\$196</u>	<u>US\$185</u>

#### *Rates*

Since February 1, 2003, a substantial portion of PLDT's international inbound traffic terminating on its fixed line network is charged approximately US\$0.12 per minute.

Rates for outbound international long distance calls are based on type of service, whether operator-assisted or direct-dialed. Our rates are quoted in U.S. dollars and are billed in pesos. The peso amounts are determined at the time of billing. We charge a flat rate of US\$0.40 per minute to retail customers for direct-dialed calls, applicable to all call destinations at any time on any day of the week.

We also offer international long distance services through PLDT *Budget Card*, a prepaid call card, which offers low-priced international calling service at IDD call rates ranging from Php3.00 per minute to Php15.00 per minute depending on the destination to more than 100 calling destinations (excluding the Middle East). In April 2007, we introduced the *Budget Card Middle East Edition* which offers reduced IDD call rates of Php10 per minute and Php15 per minute to 14 different destinations in the Middle East. *Budget Card* and *Budget Card Middle East Edition* are sold in denominations of Php200, Php100 and Php30 and must be consumed within 30 days from first use.

#### *National Long Distance Service*

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

The following table shows certain information about our national long distance call volumes and service revenues for the years ended December 31, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total call volumes (million minutes)	1,944	2,183	2,251
Total national long distance service revenues (in millions)	Php6,207	Php6,338	Php6,921
National long distance service revenue as a percentage of total fixed line service revenues	13%	13%	14%
National long distance service revenue as a percentage of total service revenues	4%	4%	5%

Cellular substitution and the widespread availability and growing popularity of alternative, more economical non-voice means of communications, particularly e-mailing and cellular text messaging, have negatively affected our national long distance call volumes partially offset by higher ARPU primarily as a result of ceasing certain promotions on our national long distance calling rates. The integration of some of our local exchanges into a single local calling area, as approved by the NTC, has also negatively affected our national long distance call volumes, and consequently, our revenues. Because of this integration, calls between two exchanges located within the same province are no longer considered national long distance calls but are treated as local calls.

#### *Rates*

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

In addition, PLDT launches from time to time promotions to stimulate fixed line usage.

We continue to evaluate the rate structure of our national long distance services from per minute toll charges to flat rates per call for calls of unlimited duration. This is envisioned to make fixed line

rates more competitive with VoIP rates and to revitalize interest in fixed line usage. We continue to study various pricing models in respect of the above new rate plans.

PLDT currently has interconnection arrangements with the majority of other local exchange carriers, pursuant to which the originating carrier pays: (1) a hauling charge of Php0.50 per minute for short-haul traffic or Php1.25 per minute for long-haul traffic to the carrier owning the backbone network; and (2) an access charge of Php1.00 per minute to the terminating carrier. PLDT still maintains revenue-sharing arrangements with a few other local exchange carriers, whereby charges are generally apportioned 30% for the originating entity, 40% for the backbone owner and the remaining 30% for the terminating entity. For more information on these interconnection arrangements, see “— Interconnection Agreements.”

#### *Data and Other Network Services*

Our data and other network service revenues include charges for leased lines, IP-based, packet-based and switched-based services. These services are used for domestic and international communications such as private networking, broadband and narrowband internet-based data communications, and packet-based communication.

The following table shows information about our data and other network service revenues and our number of broadband and narrowband subscribers as at and for the years ended December 31, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Number of <i>DSL</i> broadband subscribers	432,583	264,291	133,159
Number of <i>PLDT Vibe</i> narrowband subscribers	101,411	230,995	297,250
Total data and other network service revenues (in millions)	Php18,607	Php15,921	Php13,725
Data and other network service revenues as a percentage of total fixed line service revenues	38%	33%	28%
Data and other network service revenues as a percentage of total service revenues	12%	11%	10%

Recognizing the growth potential of data and other networking services, including IP-based services, and in light of their importance to our business strategy, we have been putting considerable emphasis on these service segments. These segments registered the highest percentage growth in revenues among our fixed line services in 2008 and continued to grow in the first quarter of 2009.

The continuous upgrading of our network using next-generation facilities and the completion of our domestic fiber optic backbone has enabled us to offer a growing range of value-added and broadband services. With this and other technological upgrades, our infrastructure has developed from a traditional voice facility to a new packet-switched and IP-based network allowing faster transmission of voice, video and data.

Our IP-based services include *PLDT DSL (myDSL and BizDSL)*, a broadband internet service targeted for heavy individual internet users as well as for small and medium enterprises, *PLDT Vibe*, a dial-up/narrowband internet service targeted for light to medium residential individual internet users, and I-Gate, our dedicated leased line internet access service targeted for enterprises and VAS providers.

In addition, in 2006, we introduced *Shops.work Unplugged*, or SWUP, a bundled service using Smart’s GPRS/EDGE network and PLDT’s virtual private network, or VPN, for retailers and banks that offers real-time wireless data communication for retailers’ cashiering point-of sale networks, bank automated teller machines, or ATMs, and merchants’ swipe card terminals.

In 2008, we continued to broaden our service offerings with the launch of new services and expansion or enhancement of some of the existing offerings.

## ***Information and Communications Technology***

We conduct our information and communications technology, or ICT, businesses through our wholly-owned subsidiary ePLDT. ePLDT is a broad-based integrated information and communications technology company, focusing on infrastructure and solutions for internet applications, IP-based solutions and multimedia content delivery. ePLDT's principal businesses are the operation of (1) knowledge processing solutions, through the SPi Group, (2) customer interaction solutions through Vocativ, Parlance and *Ventus*, (3) an internet data center under the brand name *Vitro*<sup>™</sup>, and (4) internet and online gaming through Infocom, netGames, Digital Paradise, DigiPar Thailand and Level Up!. Our ICT business segment registered revenues of Php10,983 million, Php10,322 million and Php6,890 million, accounting for 7%, 7% and 5% of our total revenues for 2008, 2007 and 2006, respectively. The increase in the revenue contribution from our information and communication technology segment was primarily due to the consolidation of SPi, CyMed and Springfield since their acquisition by ePLDT on July 11, 2006, August 11, 2006 and April 30, 2006, respectively, and has increased with the full-year consolidation of the SPi Group and Level Up! in 2007 and 2008.

### *Knowledge Processing Solutions*

ePLDT provides knowledge processing solutions through the SPi group. Our knowledge processing solutions business provides services such as: (a) editorial and content production services to the scholarly scientific, technical and medical journal publishing industry; (b) digital content conversion services to information organizations; (c) pre-press project management services to book publishers; (d) litigation support services which involve conventional coding and electronic discovery support services for corporations, international law firms, corporate counsels and government agencies; (e) conversion services of medical records/data from handwritten or speech format to electronic format and patient scheduling, coding and compliance assistance, consulting and specialized reporting services; and (f) revenue cycle management services for U.S. medical facilities.

### *Customer Interaction Solutions*

ePLDT has established one umbrella brand name, *ePLDT Ventus*, for all of its customer interaction solution businesses, including Vocativ and Parlance. *Ventus* provides offshore, cost-effective contact center outsourcing solutions specializing in inbound customer care. Vocativ provides customer and technical support to its clients in the Philippines, U.S. and U.K., while Parlance provides exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the U.S. In total, we owned and operated approximately 6,580 seats with 5,800 customer service representatives, or CSRs, in 2008 compared to approximately 6,400 seats with 5,930 CSRs in 2007. In each of the years 2008 and 2007, *ePLDT Ventus* had seven customer interaction solution sites.

### *Internet and Online Gaming*

ePLDT owns a 99.6% interest in Infocom, one of the country's leading ISPs. Infocom offers consumer prepaid internet access under the name *WarpSpeed* and *Speed Tipid*, and postpaid internet access; dedicated dial-up and multi-user dial-up corporate leased lines; broadband internet access through *DSL* and cable; and website consulting, development and hosting. ePLDT also owns a 75% interest in Digital Paradise, an internet café business with over 154 branches which assumed the assets of Netopia Computer Technologies, Inc. and the brand *Netopia*. ePLDT further holds an 80% interest in netGames, a publisher for Massively Multi-player Online Games in the Philippines; and a 60% equity interest in Level Up!, a leading publisher of online games in the Philippines.

## *Data Center*

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

## **Infrastructure**

### **Wireless Network Infrastructure**

#### *Cellular*

Through Smart, we operate a digital GSM network. To meet the growing demand for cellular services, Smart has implemented an extensive deployment program for its GSM network covering substantially all of Metropolitan Manila and most of the other population centers in the Philippines. As at December 31, 2008, Smart had 45 mobile switching centers and 78 text messaging service centers and 8,477 base stations in operation after having added 652 base stations to its nationwide cellular network in 2008, while Piltel had six active cell sites.

Smart has an operating spectrum of 7.5 MHz in the 900 band supporting both its GSM and previously its ETACS network and 20 MHz in the 1800 band for GSM and 15 MHz in the 2100 band and 10 MHz in the 850 band assigned for 3G and W-CDMA. Its dual-band GSM network allows it to efficiently deploy high capacity 1800 MHz BTS in dense urban areas while its 900 MHz BTS can be much more economically deployed in potentially high growth, but less densely populated provincial areas. The 3G network revolutionizes mobile technology by providing more capacity, faster data rates and richer data and video applications. Smart has been deploying its 3G network in urban areas where there is a demand for mobile broadband applications and where 3G mobile units are more likely to be available. Spectrum constraints will not affect Smart's expansion plans for GSM in the foreseeable future.

Due to its access to PLDT's network assets, Smart has been able to achieve significant capital expenditure savings, which capital expenditures are understood to be significantly less, on a per net addition basis, than its current competitors. This translates into an improved ability to price competitively and target the mass market subscriber base in the Philippines, while retaining profitability. Based on existing equipment purchase contracts, Smart expects incremental capital expenditure per net additional subscriber to amount to less than US\$50.

We expect continued increases in coverage (particularly indoor) in the coming years, as well as the introduction of new types of BTS for indoor and commercial offices. Smart has introduced the *NanoBTS*, a compact and easy-to-deploy solution for indoor coverage and increased efficiencies in underserved offices and buildings. The new base station equipment uses IP for transport and Smart is one of the very first operators to deploy this access solution.

Smart was awarded a 3G license by the NTC in 2005 and received the largest radio frequency allocation of 15 MHz. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrum, the range that would best enable it to rapidly deploy its 3G network nationwide and at the same time offer the highest quality of 3G service. Smart has commenced its 3G network roll-out and continues to extend the reach of its 3G network in various cities and municipalities nationwide, further improving coverage in major urban centers and selected provincial areas.

Smart and Piltel have been co-locating their cell sites where their base stations are installed. As at December 31, 2008, 27 of Smart's mobile switching centers and 216 of Smart's cell sites were housed



in PLDT's fixed line complexes while 248 of Smart's cell sites were co-located with Piltel. These operational synergies have allowed Smart to reduce switch installation time from three months to five weeks.

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

SBI operates a nationwide broadband wireless internet data services. It is operating in the 2.4, 3.5 and 5.7 GHz spectrum, supporting its WiFi, Canopy and eventually WiMax services, respectively. It offers fixed wireless broadband internet connectivity to both residential and corporate clients. It also maintains and operates WiFi hotspots installations that serve mobile internet users. Almost 2,000 of Smart's base stations are now wireless broadband-capable, covering most of the key cities and the other populated centers in the country. These are strategically co-located in Smart's cellular base stations that allow it to efficiently reach many subscribers. For its backbone, it uses the nationwide PLDT and Smart fiber optic and IP backbone that provide substantial bandwidth capacity to utilize and to grow on demand.

Mabuhay Satellite controls and operates the Agila 2 satellite, which has 30 C-band transponders and 24 Ku-band transponders covering the Asia-Pacific region, the Indian subcontinent and Hawaii. Of the 54 transponders, six have restricted usage due to satellite interference. Through the Agila 2 satellite, Mabuhay Satellite caters to providers of internet backbone access, and video and data broadcasting, and also provides bandwidth-on-demand, facilitating communication links between telecommunications, broadcast and other public utility companies operating in the Asia-Pacific region. In December 2000, Agila 2 satellite joined the U.S. FCC's "Permitted Space Station" list, which permits U.S.-owned and operated earth stations in Hawaii to access Agila 2 satellite for transpacific telecommunications, data, video and internet-over-satellite traffic and vice versa.

ACeS Philippines manages, controls and operates its own satellite gateway and other ground infrastructure, including a 13-meter feeder-link C-band earth station, beam congruency antenna and equipment that serve as the primary interface between the ACeS System and other telecommunications networks. It uses the Garuda I satellite to transmit digital voice services to ACeS System, mobile and fixed terminal users within the Asian service area.

### **Fixed Line Network Infrastructure**

#### ***Domestic***

Our domestic telephone network includes installed telephones and other equipment on customers' premises, local access lines connecting customers to exchanges, referred to as "outside plant," inter-office lines connecting exchanges, and long distance transmission equipment. As at December 31, 2008 and 2007, we had 228 central office exchanges compared with 184 as at December 31, 2006.

We are currently upgrading our fixed line facilities to the Next Generation Network, or NGN, an IP-based platform that can deliver voice and data services using the same network. NGN enables us to replace the ageing Public Switched Telephone Network switches and transfer the existing customers to this new platform and acquire new customers for voice and data services. We expect to complete the upgrading of our fixed line facilities to NGN in 2012, providing subscribers with a diversified range of telecommunication services using IP technology.

We also have an Internet Gateway that provides premium service with high-speed, reliable and managed connectivity to the Internet. The gateway is composed of high capacity and high performance routers that serve as our IP network gateway to the rest of the world. It provides premium internet service to all types of customers ranging from ordinary broadband customers to high bandwidth internet

requirements of corporate customers, knowledge processing solution providers, internet service providers and other service providers.

Furthermore, we have several networks that provide domestic and international connectivity for corporate customers and other carriers. These include the Multi-Service Access Platform based on synchronous digital hierarchy, or SDH, technology and legacy data networks that provides wide range of bandwidth from low speed to high speed capacity in Gigabits per seconds. These networks are deployed in strategic areas nationwide comprising of more than a thousand nodes and these networks will eventually be evolved to a converged multi-service Carrier Ethernet Network.

We have our own 6,400-kilometer DFON, the country's first telecommunications network using fiber optics in delivering voice, video, data, and other broadband and multimedia services nationwide. Our fiber optic network employs SDH and Dense Wavelength Division Multiplexing, or DWDM, technologies to improve network performance and reduce operating costs. Our network is composed of in-land and submarine cable installations and is configured in seven self-healing rings allowing route delivery even in the event of single link failure per ring. To date, the PLDT DFON is equipped with N x 10 gigabits per second capacity and is connected directly to four existing international submarine cable systems. To maintain the 2,400 kilometer submarine portion of the DFON, we use CS Vega, a cable ship that we lease from NTT World Engineering Marine Corporation or NTT-WEM, pursuant to a shared-vessel maintenance agreement until January 31, 2010.

PLDT is upgrading DFON capability to the latest Reconfigurable Optical Add-Drop Multiplexer technology which provides optical branching capability pivotal in the deployment of efficient and reliable optical networks designed to provide advanced services, in addition to the existing DWDM and SDH technology.

We likewise have an IP backbone network composed of high-capacity, high-performance core and edge routers which provides connectivity to all IP-based network elements of PLDT, Smart, other affiliates and subsidiaries, and corporate customers. It serves as the single IP transport platform for all IP-based services of PLDT.

For many years, PLDT has been using the power pole network of Meralco in Metropolitan Manila for PLDT's fixed line aerial cables in this area pursuant to lease agreements with Meralco with typically a five-year term. While in previous years PLDT has been able to renew these agreements on commercially reasonable terms, there can be no assurance that the power pole network sharing agreements upon their expiration can be renewed on commercially reasonable terms or at all. In case of an expiration of these agreements, PLDT would expect to have to incur significant capital expenditures to ensure continued fixed line coverage in the area of Metropolitan Manila and to experience interruptions in the provision of fixed line services in such area until the necessary fixed line infrastructure has been implemented. PLDT, through Piltel, will acquire an approximately 20% equity interest in Meralco and has in this regard entered into an investment and cooperation agreement with the Lopez Group providing it with certain corporate governance rights in respect of Meralco.

### ***International***

We provide international network services using our two international gateway switching exchanges. As at December 31, 2008, our international long distance facilities allow direct correspondence with 44 countries (representing 79 correspondents) and can reach 468 foreign destinations (via direct and transited routes including fix and mobile breakouts) worldwide. We also own interests in submarine and satellite systems, through which we route most of our international traffic.

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

<b>Cable System</b>	<b>Countries Being Linked</b>
G-P Asia-Pacific Cable Network	Guam and the Philippines Korea, Japan, Hong Kong, Taiwan, Australia, Philippines, Singapore, Malaysia, Indonesia and Thailand
Asia-Pacific Cable Network 2	Philippines, Hong Kong, Japan, Korea, Malaysia, Singapore, China and Taiwan
Transpacific Cable No. 5 SEA-ME-WE-3	Guam, Japan, Hawaii and the U.S. Mainland Japan, Korea, China, Taiwan, Hong Kong, Macau, Philippines, Vietnam, Brunei, Malaysia, Singapore, Indonesia, Australia, Thailand, Myanmar, Sri Lanka, India, Pakistan, United Arab Emirates, Oman, Djibouti, Saudi Arabia, Egypt, Cyprus, Turkey, Greece, Italy, Morocco, Portugal, France, UK, Belgium and Germany
Americas Cable 1	U.S. Mainland, U.S. Virgin Islands, Brazil, Trinidad and Venezuela
China-U.S. Cable Columbus II Cable	Japan, China, Taiwan, Korea, Guam and U.S. Mainland U.S. Mainland, Italy, U.S. Virgin Islands, Mexico, Portugal and Spain
FLAG Cable	Japan, Korea, China, Hong Kong, Malaysia, Thailand, India, United Arab Emirates, Saudi Arabia, Egypt, Italy, Spain and UK
RJK Cable	Russia, Japan and Korea
Southern Cross Cable	U.S. Mainland, Hawaii, Fiji, Australia and New Zealand
TVH Cable	Thailand, Vietnam and Hong Kong
EAC Cable	Japan, Hong Kong, Korea, Taiwan, Singapore and the Philippines
PC-1, Japan-U.S. Cable and TGN	Japan and the U.S.

Additionally, on April 27, 2007, a consortium of 19 major international telecommunication operators, including PLDT, signed an agreement to build the first high-bandwidth optical fiber submarine cable system linking Southeast Asia and the U.S. The cable project, known as the *Asia-America Gateway*, will span 20,000 kilometers and will use the latest Dense Wavelength Division Multiplexing technology to provide upgradeable, future proof transmission facilities that will support bandwidth requirements for new and revolutionary broadband applications. It is expected that the *Asia-America Gateway* will cost approximately US\$500 million (of which US\$50 million represents PLDT's investment) and will be ready for service by the end of the first half of 2009.

### **Interconnection Agreements**

Since the issuance of Executive Order No. 59 in 1993, which requires non-discriminatory interconnection of Philippine carriers' networks, we have entered into bilateral interconnection arrangements with other Philippine fixed line and cellular carriers.

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

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

Under a separate agreement between PLDT and PAPTELCO, PLDT is the transit facility provider between Smart, Globe, other local exchange carriers, or LEC, operators and PAPTELCO. PAPTELCO is comprised of 43 LEC operating 129 major telephone exchanges nationwide. Transit traffic is a service by PLDT to Smart, Globe, other LEC operators and PAPTELCO members where PAPTELCO members have no direct interconnection with either Smart, Globe and other LEC operators. PLDT also has similar arrangement with other non-members of PAPTELCO.

Effective February 1, 2003, international calls terminating to PLDT's fixed line network have been charged a termination rate of approximately US\$0.12 per minute, an increase from the previous rate of US\$0.08 per minute. Also, international calls terminating to Smart's cellular network have been charged a termination rate of US\$0.16 per minute, an increase from the previous termination rate of US\$0.12 per minute. In 2008, the average termination rates for PLDT and Smart were approximately US\$0.11 and US\$0.13 per minute, respectively.

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

## **Licenses and Regulation**

### **Licenses**

PLDT, Smart, Piltel, SBI and CURE provide telecommunications services pursuant to legislative franchises which expire, in the case of PLDT, on November 28, 2028, in the case of Smart, on March 27, 2017, in the case of Piltel, on May 14, 2019, in the case of SBI, on July 14, 2022, and in the case of CURE, on April 24, 2026. A franchise holder is required to obtain operating authority from the NTC to provide specific telecommunications services. These approvals may take the form of a CPCN or, while an application for a CPCN is pending, a provisional authority to operate. Provisional authorities are typically granted for a period of 18 months. The Philippine Revised Administrative Code of 1987 provides that if the grantee of a license or permit, such as a CPCN or provisional authority, has made timely and sufficient application for the extension thereof, the existing CPCN or provisional authority will not expire until the application is finally decided upon by the administrative agency concerned.

PLDT operates its business pursuant to a number of provisional authorities and CPCNs, the terms of which will expire at various times between now and 2028. The CPCNs pursuant to which PLDT may provide services to most of the Metropolitan Manila area, Davao and other Philippine cities expired in 2003. Although some of PLDT's CPCNs and provisional authorities have already expired, PLDT filed timely applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC's decision on these extensions. PLDT expects that the NTC will grant these extensions; however, there can be no assurance that this will occur. The period of validity of some of PLDT's CPCNs has been extended further by the NTC to November 28, 2028, coterminous with PLDT's current franchise under R.A. 7082. Motions to extend the period of validity of the other CPCNs to November 28, 2028 are currently pending with the NTC. See Item 6. "Risks and Uncertainties— Risk Relating to Us — Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes."

On August 22, 2008, PLDT was granted authority under NTC Case No. 2007-095 to operate in key cities and municipalities nationwide not yet covered by its existing CPCNs and/or authorizations. This approval extended the coverage of PLDT to all areas nationwide except for the province of Albay for which the CPCN approval covering seven areas in Albay province remains pending. Upon securing the CPCN approval for the areas of Albay Province under NTC Case No. 2006-078, PLDT would have obtained authorizations to operate nationwide.

Smart operates its cellular, international long distance and national long distance services pursuant to CPCNs, the terms of which will expire upon the expiration of its franchise. On July 22, 2002, Smart was granted separate CPCNs to operate a cellular mobile telephone system, or CMTS, and an international gateway facility. On August 26, 2002, Smart was granted a CPCN to install, operate and maintain nationwide global mobile personal communications via satellite which will also expire upon expiration of its franchise. On February 19, 2008, Smart was granted a CPCN to establish, install, maintain, lease and operate an international private leased circuit for a term that is coterminous with the expiration of its franchise. Prior to that, Smart was permitted to engage in these activities pursuant to a provisional authority and a timely filed application for the grant of such CPCN. On the same date, upon application of Smart, the NTC extended Smart's provisional authority to construct, install, operate and maintain a nationwide public calling office and public payphone service from January 4, 2007 to January 4, 2010.

On December 29, 2005, Smart was awarded a 3G license by the NTC after being ranked highest in garnering a perfect score on a 30-point grading system designed to gauge the capability of telecommunication operators to effectively provide extensive 3G services. As a result, Smart received the largest radio frequency allocation of 15 MHz as well as first choice of frequency spectrum. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrum. Smart is required to pay annual license fees of Php115 million based on the 15 MHz awarded to Smart.

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

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

- begin installation and rollout of its 3G network no later than 18 months from the date of the award;
- start commercial operations no later than 30 months from the date of the award; and
- cover at least 80% of provincial capitals and 80% of chartered cities within five years.

Pitel is authorized to provide virtually every type of telecommunications service, including the transmission of voice, data facsimile, audio and video and information services, in and between provinces, cities and municipalities throughout the Philippines. The franchise, which was last amended on May 14, 1992, will expire on May 14, 2019 and may be extended by a legislative act of the Philippine Congress.

SBI is a grantee of a 25-year legislative franchise under R. A. 8337, which expires on July 14, 2022 to construct, install, establish, maintain, lease and operate wire and/or wireless telecommunications system throughout the Philippines.

SBI is a holder of a provisional authority issued by the NTC for the installation, operation, and maintenance of the Data Leased Channel Circuit Network Service that was valid up to September 21, 2007. SBI filed a motion for the extension of its provisional authority which remains pending with the NTC. SBI also has a pending application with the NTC for the issuance of a provisional authority and CPCN for the expansion of its Data Leased Channel Circuit Network Service in several areas in Zamboanga Sibuguey, Sultan Kudarat, Southern Leyte, Biliran, Compostela Valley, Davao Oriental, and Dinagat Island. SBI is also a grantee of a provisional authority for the installation, operation, and maintenance of international leased line service that was valid up to February 2005 and the motion for extension of which remains pending with the NTC.

CURE is a grantee of a 35-year congressional franchise under R. A. 9130, which expires on April 24, 2026, to construct, install, establish, maintain, lease and operate wire and/or wireless telecommunications system throughout the Philippines. The NTC granted CURE a provisional

authority to install, operate and maintain a nationwide 3G network on January 3, 2006 valid for 18 months, which was subsequently extended for three years from January 4, 2007 until January 3, 2010.

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

<b>Carrier</b>	<b>Spectrum System</b>	<b>Frequency Assignment</b>	<b>Bandwidth</b>
Smart	ETACS/GSM 900 GSM 1800	897.5-905/942.5-950 MHz	7.5 MHz
		1725-1730/1820-1825 MHz	5.0 MHz
		1730-1732.5/1825-1827.5 MHz	2.5 MHz
		1735-1740/1830-1835 MHz	5.0 MHz
		1745-1750/1840-1845 MHz	5.0 MHz
		1780-1782.5/1875-1877.5 MHz	2.5 MHz
	3G (W-CDMA)	1920-1935/2110-2125 MHz 825-835/870-880 MHz	15.0 MHz 10.0 MHz
Piltel	AMPS/CDMA	824-825/869-870 MHz	1.0 MHz
		845-846.5/890-891.5 MHz	1.5 MHz
SBI	Wireless broadband	2400-2483.5 MHz *	73 MHz
		3400-3590 MHz *	94 MHz
		5470-5850 MHz *	123 MHz
CURE	3G	1955-1965/2145-2155 MHz	10.0 MHz

\* SBI frequency assignments on these bands are non-contiguous and are on a per station and location basis.

### ***Material Effects of Regulation on our Business***

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

PLDT, Smart, Piltel, SBI and CURE are required to pay various permits, regulation and supervision fees to the NTC. PLDT was previously engaged in disputes with the NTC over some of the assessed fees. For more information on the disputes involving PLDT, see Item 3. “Legal Proceedings – NTC Supervision and Regulation Fees, or SRF.”

The Philippine Congress is considering two bills that relate to the imposition of franchise tax on telecommunications companies. HB 1469 proposes to re-impose a 5% franchise tax on gross receipts on telephone and telegraph services in lieu of the VAT. HB 1560 proposes a franchise tax at the rate of 3.5% on the first year and 7% thereafter on the gross receipts of telecommunications and broadcast companies, in lieu of the VAT. There are also various bills in Congress which propose to tax telecommunications services, among them, the imposition of a tax on mobile phone companies on all text entries to text games; the imposition of a Php0.50 specific tax on SMS to be borne by the cellular phone companies; and the imposition of a 10% ad valorem tax on all cellular phone calls using 3G.

More recently, Congress has been deliberating on a bill that seeks to prohibit telecommunications companies from imposing fees and/or charges on text messaging between subscribers of the same telecommunications company and providing for free text messages until the prepaid load has been fully consumed. The Committee on Oversight of Congress is also holding discussions on the possibility of linking up the Bureau of Internal Revenue, or BIR, and NTC with the

telecommunications companies through an electronic “metering device,” which discussions led to a proposal to impose an additional Php0.10 tax on text messaging.

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

In order to diversify the ownership base of public utilities, the Public Telecommunications Policy Act, R.A. 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchanges representing at least 30% of its aggregate common shares within a period of five years from (a) the date the law became effective or (b) the entity’s first start of commercial operations, whichever date is later. PLDT and Piltel have complied with this requirement. However, Smart has not conducted a public offering of its shares. If Smart is found to be in violation of R.A. 7925, this could result in a revocation of the franchise of Smart and in the filing of a *quo warranto* case against Smart by the Office of the Solicitor General of the Philippines. See Item 6. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risks and Uncertainties – Risks Relating to Us – The franchise of Smart may be revoked due to its failure to conduct a public offering of its shares” for further discussion.

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

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

In addition, in 2008, the NTC proposed implementing guidelines on developing reference access offers, which are statements of the prices, terms and conditions under which a telecommunications carrier proposes to provide access to its network or facilities to another such carrier or value-added service provider.

## **Competition**

Including us, there are eight major local exchange carriers, 11 international gateway facility providers and seven cellular service providers in the country. Many new entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technological and funding support as well as service innovations and marketing strategies. Consequently, we are facing increasing competition in major segments of the telecommunications industry, particularly data and other network services segments.

## *Cellular Service*

There are presently seven operating service providers, namely Smart, Piltel, Globe, Innove, Digital Telecommunications Philippines, Inc., or Digitel, Express Telecom, or Extelcom, and CURE. Globe acquired Innove to form one operating group while Smart and Piltel, both being part of the PLDT Group, form another operating group. These two operating groups have approximately 88% of the Philippine cellular market. There are therefore effectively two large competitors in the Philippine cellular market. The third active operator, Digitel commenced its cellular service, *Sun Cellular*, on March 29, 2003 and is estimated to have approximately 12% of the cellular market as at December 31, 2008. Extelcom operates on an analog platform and is estimated to have minimal subscribers. In December 2005, the NTC awarded four out of five 3G licenses to existing cellular operators Smart, Globe, Digitel and to a new entrant, CURE. The NTC has yet to award a fifth license to another operator.

Competition in the cellular industry has intensified with the increased availability of affordably priced handsets offering a range of new functions and the introduction by competitors of new and improved plans for postpaid subscribers, reduced rates per minute and aggressive marketing and promotional strategies. The principal bases of competition are price, including handset cost, quality of service, network reliability, geographic coverage and attractiveness of packaged services. Smart's network leads the industry in terms of coverage with 8,477 base stations as at December 31, 2008.

As a result of competitive pressures, several service providers, including Smart and Piltel, have, in the last two years, introduced “bucket” plans providing unlimited voice and text services, and other promotions. While most of the “bucket” priced plans currently available in the market are being offered on promotional bases, Smart, Globe and Sun Cellular continue to launch other services that are designed to encourage incremental usage from existing subscribers and also to attract new subscribers.

Cellular operators also compete actively in launching innovative products and VAS. The growing range of cellular products and services include not only text messaging but also multi-media messaging, voice mail, text mail, international roaming, information-on-demand, mobile banking, e-commerce, mobile data, cellular internet access and internet messaging.

On February 14, 2006, Smart opened its 3G network in selected key cities nationwide, making video calling, video streaming, high speed internet browsing and special 3G content downloads on its 3G network available to subscribers with 3G handsets. Likewise, Globe has been rolling out its 3G network.

Consistent with industry practice and Smart's churn management efforts, Smart “locks” the handsets it sells to its subscribers, rendering them incompatible with SIM cards issued by competitors and thereby hindering them from swapping the existing SIM for a SIM of a competing operator. However, subscribers can have their handsets “unlocked” by unauthorized parties for a nominal fee and purchase new SIM cards from competing operators. “Unlocking” does not involve significant cost. Switching to another cellular operator would, however, result in a change of the subscriber's cellular telephone number.

In order to avail themselves of promotions and cost efficient network-to-network calling rates, cellular subscribers in the Philippines have increasingly been subscribing to the services of multiple wireless operators. As a result, the increases in 2007 and 2008 in our cellular subscriber base and the penetration rate of the wireless market in the Philippines were primarily attributable to such “multiple SIM card ownership”.



### ***Local Exchange Service***

The concerted nationwide local exchange line build-out by various providers, as mandated by the Philippine government, significantly increased the number of fixed line subscribers in the country and resulted in wider access to basic telephone service. The growth of the fixed line market, however, remained weak due to the surge in demand for cellular services and, in the past, the general sluggishness of the national economy. Nevertheless, we have sustained our leading position in the fixed line market on account of PLDT's extensive network in key cities nationwide. In most areas, we face one or two competitors. Our principal competitors in the local exchange market are Digitel, Bayan Telecommunications and Globe, which also provide local exchange service through "fixed wireless landline service."

There are currently four major fixed wireless landline services in the market that resemble a cellular phone service but provide the same tariff structure of a fixed line service such as the charging of monthly service fees. The earliest such service was provided by Digitel in the fourth quarter of 2005 at a fixed monthly rate of Php672. This service is provided mostly in selected areas of Southern and Northern Luzon where Digitel was lacking fixed cable facilities. Globe quickly followed suit with similar service at a monthly rate of Php995 which bundled a wireless landline and broadband internet connection of 384kbps. This service is offered in limited areas of Metropolitan Manila like Makati, Las Piñas, the Visayas region and selected areas of Southern Luzon like Cavite and Batangas.

Bayan Telecommunications launched a similar service at lower rates in the second half of 2006, which service maintains two major price points open to both residential and business subscribers. This service is available under two plans, a plan at a monthly rate of Php699 for customers in Metro Manila and a plan at a monthly rate of Php599 for customers in selected regional areas of the Philippines.

In March 2007, we launched the *PLDT Landline Plus*, a postpaid fixed wireless service which was initially available only in regional areas where there were no available PLDT fixed cable facilities, at a flat monthly rate of Php499, and which was subsequently extended to other areas, including Metro Manila, and increased to a monthly rate of Php600 with 600 local minutes free and for residential and Php1,000 with 1,000 local minutes free for business subscribers. In March 2008, we introduced the prepaid counterpart of the *PLDT Landline Plus*.

### ***International Long Distance Service***

Including us, there are 11 licensed international gateway facility operators in the country. While we have so far been able to maintain a leadership position in this highly competitive segment of the industry, our market share in recent years has declined largely as a result of (1) competition from other international gateway facility operators and illegal international simple resale operators; (2) an increase in inbound and outbound international long distance calls terminating to and originating from the growing number of cellular subscribers; and (3) the popularity of alternative and cheaper modes of communication such as text messaging, e-mail, internet telephony and the establishment of VPNs for several corporate entities, further heightening the competition.

With respect to outbound calls from the Philippines, we compete for market share through our local exchange and cellular businesses, which are the origination points of outbound international calls. We also have introduced a number of marketing initiatives to stimulate growth of outbound call volumes, including tariff reductions and volume discounts for large corporate subscribers. Digitel and Globe have also launched new pricing schemes to grow their outbound call volumes.

With respect to inbound calls into the Philippines, we have been pursuing a number of initiatives to strengthen our inbound telecommunications traffic, including lowering our termination rates and identifying and limiting unauthorized traffic termination. In addition, we have also established, through our wholly-owned subsidiary PLDT Global, presence in key cities overseas to identify and capture Philippine terminating traffic at its source, maximize the use of our international facilities and develop alternative sources of revenue.

### ***National Long Distance Service***

Our national long distance service business has been negatively affected by the growing number of cellular subscribers in the Philippines and the widespread availability and growing popularity of alternative economical non-voice methods of communication, particularly text messaging and e-mail. In addition, various ISPs have launched voice services via the internet to their subscribers nationwide.

While national long distance call volumes have been declining, we have remained a leading provider of national long distance service in the Philippines due to our significant subscriber base and ownership of the Philippines' most extensive transmission network.

PLDT launches from time to time promotions bundled with our other products to attract new subscribers including free PLDT-to-PLDT NDD service.

### ***Data and Other Network Services***

Another rapidly growing segment of the industry is the market for data and other network services. The growth is spurred by the significant growth in consumer and retail narrowband and broadband internet access, enterprise resource planning applications, customer interaction solutions, knowledge processing solutions, on-line gaming and other e-services that drive the need for broadband and internet-protocol based solutions both here and abroad. Our major competitors in this area are Globe and Innove, Bayan Telecommunications, Eastern Telecoms and Digitel. The principal bases of competition in data services market are coverage, price, value for money, bundles or free gifts, customer service and quality of service.

### ***Principal Competitors***

The table below sets out our principal competitors' market share and other relevant information for the year 2008:

	<u>Asset Base</u>	<u>Operating Revenues</u>	<u>Net Income (Loss)</u>	<u>Market Share<sup>(1)</sup></u>	
				<u>Fixed Line<sup>(2)</sup></u>	<u>Cellular</u>
<b>(in millions)</b>					
Globe <sup>(3)</sup>	Php119,743	Php62,894	Php11,276	14	36%
Digitel <sup>(4)</sup>	70,878	7,718	(2,725)	15	12%
Bayan Telecommunications <sup>(5)</sup>	17,476	5,521	3,323	8	–

<sup>(1)</sup> Based on subscriber base.

<sup>(2)</sup> Estimates based on publicly available information.

<sup>(3)</sup> Based on year-end 2008 Presentation Materials filed with PSE and SEC.

<sup>(4)</sup> Based on unaudited 3Q2008 Form 17-Q filed with the PSE, the latest public filing available.

<sup>(5)</sup> Based on 2007 audited financial statements, the latest public filing available.

## Competitive Strengths

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

- *Recognized Brands.* PLDT and Smart are strong and widely recognized brand names in the Philippines. We have built the PLDT brand name for 80 years as the leading telecommunications provider in the Philippines. Smart is recognized in the Philippines as an innovative provider of high-quality cellular services. Piltel's *Talk 'N Text* brand, which is provided using Smart's network, has also gained significant recognition as a value for money brand.
- *Leading Market Shares.* With approximately 37 million fixed line and cellular subscribers as at December 31, 2008, we have the leading market positions in both the fixed line and cellular markets in the Philippines.
- *Diversified Revenue Sources.* We derive our revenues from our three business segments, namely, wireless, fixed line and ICT businesses, with wireless contributing 61%, fixed line 32% and ICT 7% to our consolidated revenues in 2008. Revenue sources of our wireless business segment include cellular services, which include voice services and text message-related and VAS, and wireless broadband services. Our fixed line business derives service revenues from local exchange, international long distance, national long distance and data and other network services. In our ICT business, sources of revenue include knowledge processing solutions, customer interaction solutions and internet and online gaming, and data center services. Fixed line revenues, which represented 32%, 33% and 36% of our consolidated revenues in 2008, 2007, and 2006, respectively, have been declining over the past years as a share of our consolidated revenues due to pressures on traditional fixed line voice revenues, resulting from decreases in our local exchange, international long distance and national long distance services, and reduced international interconnection rates. We will continue to identify and develop new revenue sources to further broaden our diversified revenue base for our wireless, fixed line and ICT businesses.
- *Advanced Integrated Network.* With one of the most advanced and extensive telecommunications networks in the Philippines, we are able to offer a wide array of communications services. We are enhancing the capabilities of our fixed line and wireless networks to allow us to better exploit this competitive strength and achieve higher levels of network efficiency in providing voice and data services. In addition, we continue our roll out of 3G and wireless broadband and our upgrade to NGN in order to increase broadband subscribers, and expand our data/broadband capabilities.
- *Innovative Products and Services.* We have successfully introduced a number of innovative and award-winning cellular products and services, including *Smart Money*, *Smart Load* and *Pasa Load*. *Smart Load* is an "over-the-air" electronic loading facility designed to make reloading of air time credits more convenient for, and accessible to consumers. *Pasa Load* (the term "pasa" means "transfer"), is a derivative service of *Smart Load* that allows load transfers to other *Smart Buddy* and *Talk 'N Text* subscribers.
- *Strong Strategic Relationships.* We have important strategic relationships with First Pacific, NTT DoCoMo and NTT Communications. The technological support, international experience and management expertise made available to us through these strategic relationships enhance our market leadership and ability to provide and cross-sell a more complete range of products and services.

## **Intellectual Property Rights**

We do not own any material intellectual property rights apart from our brand names and logos. We are not dependent on patents, licenses or other intellectual property which are material to our business or results of operations, other than licenses to use the software that accompany most of our equipment purchases.

## **Major Suppliers**

Substantially all the telecommunications equipment thus far obtained in connection with our development programs has been purchased outside the Philippines, and we expect that a large portion of the equipment requirements of our future development programs will also be purchased from foreign sources. Since 1998, Nokia Telecommunications OY has been Smart's principal supplier of hardware and software equipment for its GSM network. Likewise, for PLDT's initial NGN roll-out, UTStarcom was initially selected as the principal supplier for hardware and software equipment. A significant source of financing for our equipment purchases has been and, subject to the availability of credit, will continue to be foreign loans requiring repayment in currencies other than Philippine pesos, principally U.S. dollars.

## **Governmental Regulations**

As a public utility, we are subject to governmental regulations with respect to our operations, services, rates and ownership. We believe that we are in compliance with all applicable governmental regulations and that our relations with government regulators are satisfactory despite our protests against NTC's assessments of certain fees (see Item 3. "Legal Proceedings — NTC Supervision and Regulation Fees"). For further discussion on governmental laws and regulations affecting our business, see Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risks and Uncertainties — Risks Relating to Us — Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises and rates."

## **Compliance with Environmental Laws**

We have not been subject to any material fines or legal or regulatory action involving non-compliance with environmental regulations of the Philippines. We are not aware of any non-compliance in any material respect with relevant environmental protection regulations.

## **Employees and Labor Relations**

As at December 31, 2008, we had 29,904 employees within the PLDT Group, with 5,602, 7,813 and 16,489 employees in our wireless, fixed line and ICT groups, respectively. PLDT had 7,590 employees as at December 31, 2008, of which 38% were rank-and-file employees, 56% were management/supervisory staff and 6% were executives. This number represents a decrease of 319, or approximately 4%, from the staff level as at December 31, 2007, mainly as a result of the ongoing manpower rightsizing program. From a peak of 20,312 employees, as at December 31, 1994, PLDT's number of employees declined by 12,722 employees, or 63%, as at December 31, 2008. As at December 31, 2007, we had 30,255 and 7,909 employees within the PLDT Group and PLDT, respectively. The decrease in the number of employees within the PLDT Group from 2007 to 2008 primarily resulted from the reduction in the number of employees in our business process outsourcing and call center businesses.

PLDT has three employee unions, the members of which in the aggregate 5,602 represent 19% of the employees of the PLDT Group. We consider our relationship with our rank-and-file employees' union, our supervisors' union and our sales supervisors' union to be good.

On November 16, 2006, PLDT and the *Manggagawa ng Komunikasyon sa Pilipinas*, or MKP, our rank-and-file employees' union, concluded and signed a new three-year Collective Bargaining Agreement, or CBA, covering the period from November 9, 2006 to November 8, 2009. This CBA provides each member a signing bonus equivalent to one month's salary (computed at the salary rate prevailing prior to November 9, 2006) plus Php15,000; increase of the monthly salary of Php2,150, Php2,200 and Php2,550 for the first, second and third year, respectively; an increase in the yearly Christmas gift certificate from Php7,000 to Php8,000; an increase in the amount of coverage under the group life insurance plan from Php500,000 to Php650,000; an additional contribution of Php1 million to the Educational Loan Fund; and Php35,000 funeral assistance for the death of a dependent. Other provisions of this CBA include increases in the rice subsidy and professional fee for dependent's hospitalization.

On May 28, 2008, a new CBA covering a three-year period starting from January 1, 2008 was signed by PLDT and PLDT Sales Supervisors' Union, or PSSU, which provided for salary increases for the period from January 1, 2008 to December 31, 2008 and for an agreement to be subsequently reached between PLDT and PSSU on salary increases for 2009 and 2010. With regard to the period from January 1, 2008 to December 31, 2008, this new CBA provided for an increase of the monthly salary by 5% of basic wage or Php1,600, whichever is higher, plus a lump sum payment of Php40,000 for 2008; a goodwill signing bonus of Php30,000; an expeditious agreement bonus of Php43,000; a one-time lump sum clothing accessory allowance of Php6,000; an increase in yearly Christmas gift certificate from Php8,000 to Php9,000; and additional contribution of Php100,000 to the Educational Trust Fund. Other provisions included increases in rice subsidy and hospitalization benefits for dependents. On January 16, 2009, pursuant to the CBA, PLDT and PSSU reached an agreement on salary increases for 2009 and 2010, which provided for an increase of the monthly salary by 11% of basic wage or Php3,000, whichever is higher, plus Php5,000 lump sum bonus and Php5,000 incentive bonus effective January 1, 2009, and an increase of the monthly salary by 10% of basic wage or Php2,600, whichever is higher, effective January 1, 2010.

On December 18, 2008, after a lengthy legal dispute on several issues, a new CBA was concluded and signed by PLDT and *Gabay ng Unyon sa Telekomunikasyon ng mga Superbisor*, or GUTS, covering a three-year period from January 1, 2008 to December 31, 2010. This CBA provides for increases of the monthly salary by 9% of basic pay or Php2,200, whichever is higher, for the first year of the CBA; 11% of basic pay or Php3,000, whichever is higher for the second year of the CBA; 10% of basic pay or Php2,600, whichever is higher for third year of the CBA. Other provisions include increases in rice subsidy, Christmas gift certificate and hospitalization benefits for dependents.

### ***Pension and Retirement Benefits***

#### ***Defined Benefit Plans***

We have defined benefit pension plans, covering substantially all of our employees, except Smart, which require contributions to be made to a separate administrative fund.

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

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

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

#### *Defined Contribution Plan*

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

We spent Php725 million for pension, retirement and similar benefits for our employees for the year ended December 31, 2008. In addition, Php417 million was recognized in respect of the enhanced separation package of 362 employees who were covered by PLDT's manpower rightsizing program. For more information about the benefit plan including the total amount set aside to provide pension retirement or similar benefits, see *Note 5 – Income and Expenses and Note 23 – Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 7.

## **Item 2. Description of Property**

We own four office buildings located in Makati City and own and operate 228 exchanges nationwide, of which 48 are located in the Metropolitan Manila area. The remaining 180 exchanges are located in cities and small municipalities outside Metropolitan Manila area. We also own radio transmitting and receiving equipment used for international and domestic communications. As at December 31, 2008, we had 5,284 cellular cell sites and 8,477 base stations.

As at December 31, 2008, our principal properties, excluding property under construction, consisted of the following, based on net book values:

- 67% consisted of cable, wire and cellular facilities, including our domestic fiber optic network, subscriber cable facilities, inter-office trunking and toll cable facilities and cellular facilities;
- 16% consisted of central office equipment, including five international gateway facilities, six pure national toll exchanges and 15 combined local and toll exchanges, and our communications satellite;
- 11% consisted of land and improvements and buildings, which we acquired to house our telecommunications equipment, personnel, inventory and/or fleet;
- 5% consisted of information origination and termination equipment, including pay telephones and radio equipment installed for customers use, and cables and wires installed within customers' premises; and
- 1% consisted of other work equipment.

For more information on these properties, see *Note 8 – Property, Plant and Equipment* to the accompanying audited consolidated financial statements in Item 7.

These properties are located in areas where our subscribers are being served. In our opinion, these properties are in good condition, except for ordinary wear and tear, and are adequately insured.

The majority of our connecting lines are above or under public streets and properties owned by others. For example, for many years, the PLDT Group has been using the power pole network of Meralco in Metropolitan Manila for PLDT's fixed line aerial cables in this area pursuant to short-term lease agreements with Meralco with typically five-year and more recently one-year terms.

PLDT's, Smart's, and Piltel's properties are free from any mortgage, charge, pledge, lien or encumbrance; however, substantial properties of Mabuhay Satellite are subject to liens while a portion of ePLDT's property is subject to liens.

On February 7, 2008, SBI completed the acquisition of the Cluster 3 local exchange carrier assets of Cruz Telephone Company, Inc., or Cruztelco, a local exchange operator offering fixed line services in North Eastern Mindanao. Please see *Note 8 – Property, Plant and Equipment – SBI's Acquisition of Cluster 3 Assets from Cruz Telephone Company, Inc., or Cruztelco* in the accompanying audited consolidated financial statements in Item 7 for further discussion.

On September 16, 2008, PLDT, its subsidiary Mabuhay Satellite, ProtoStar Ltd., or ProtoStar, a Bermuda-based company and its wholly-owned Bermuda subsidiary ProtoStar III, Ltd., or ProtoStar III, signed several agreements covering multiple areas of cooperation. Key aspects of the agreements include: (a) a lease to ProtoStar III of the transponders on the Agila 2 satellite; (b) an exchange of certain Mabuhay Satellite assets for an equity interest in ProtoStar; (c) expanded use of Mabuhay Satellite's Subic Space Center for the operation and control of satellites; (d) an option for PLDT to make further investments in ProtoStar; and (e) an agreement for PLDT to lease C-band transponder capacity on the ProtoStar I satellite owned and operated by ProtoStar I Ltd., also a wholly-owned Bermuda subsidiary of ProtoStar. Please see *Note 8 – Property, Plant and Equipment – Wholesale Transponder Lease Agreement between Mabuhay Satellite, ProtoStar Ltd., or ProtoStar, and ProtoStar III Ltd., or ProtoStar III* and *Note 24 – Contractual Obligations and Commercial Commitments – Agreement for Space Segment Services with ProtoStar* in the accompanying audited consolidated financial statements in Item 7 for further discussion.

PLDT has various long-term lease contracts, the bulk of which have lease terms ranging from two to ten years covering certain offices, warehouses, telecommunications equipment locations and various office equipments. For more information on these lease arrangements, see *Note 24 – Contractual Obligations and Commercial Commitments* to the accompanying audited consolidated financial statements in Item 7.

### **Item 3. Legal Proceedings**

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

### **NTC Supervision and Regulation Fees, or SRF**

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, PLDT and the NTC had been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT's position, which was upheld by the Court of Appeals but rejected by the Supreme Court, was that the SRF should be computed based only on the par value of the subscribed or paid up

capital of PLDT, excluding stock dividends, premium or capital in excess of par. The Supreme Court, in its decision dated July 28, 1999, ordered the NTC to make a recomputation of the SRF based on PLDT's capital stock subscribed and paid. Subsequently, in February 2000, the NTC issued an assessment letter for the balance of the SRF, but in calculating said fees, the NTC used as a basis not only capital stock subscribed or paid but also stock dividends. PLDT questioned the inclusion of the stock dividends in the calculation of the SRF and sought to restrain the NTC from enforcing or implementing its assessment until the resolution of the said issue. Prior to the resolution of the issue mentioned above, PLDT paid the SRF due in 2000 together with the balance due from the recalculation of the SRF and had been paying the SRF due in September of each year thereafter, excluding the portion that was based on stock dividends.

The Supreme Court, in a resolution promulgated on December 4, 2007, upheld the NTC assessment of SRF based on outstanding capital stock of PLDT, including stock dividends. On April 3, 2008, PLDT complied with the Supreme Court Resolution by paying the outstanding principal amount relating to SRF on stock dividends in the amount of Php455 million to the NTC. PLDT protested and disputed NTC's assessments in the total amount of Php2,870 million which included penalties and NTC's computation thereof which PLDT believes is contrary to applicable laws and without any legal basis. In letters dated April 14, 2008 and June 18, 2008, the NTC demanded for payment of the balance of its assessment. On July 9, 2008, PLDT filed a Petition for Certiorari and Prohibition with the Court of Appeals (the "Petition") praying that the NTC be restrained from enforcing or implementing its the balance of its assessment, including penalties and interests. The Petition further prayed that after notice and hearing, the NTC be ordered to forever cease and desist from implementing and/or enforcing, and annulling and reversing and setting aside, the said letter-assessment and demand letters. On September 8, 2008, the Solicitor General, as counsel of, and representing, the NTC, filed its Comment to the Petition. On September 22, 2008, PLDT filed its Reply (To the Comment of the NTC). The Petition remains pending with the Court of Appeals as at December 31, 2008.

## **Taxation**

### ***National Internal Revenue Taxes***

PLDT has filed various cases against the Commissioner of the Bureau of Internal Revenue for refunds and/or tax credit of:

- erroneously paid value-added taxes, compensating taxes, advance sales taxes and other internal revenue taxes on PLDT's importation of various equipment, machinery, and spare parts; and
- erroneously paid withholding tax on separation pay of employees who availed themselves of the benefits under the Manpower Reduction Program.

In the case of the claim for refund of erroneously paid value-added taxes, compensating taxes, advance sales taxes and other internal revenue taxes on PLDT's importation of various equipment, machinery and spare parts, the Supreme Court, on December 15, 2005, rendered a decision partially granting the claim for refund or tax credit certificates and ordering the Commissioner of Internal Revenue, or CIR, to issue a Tax Credit Certificate or to refund to PLDT Php95 million representing erroneously collected advance sales tax and compensating tax. PLDT filed a Motion for Execution with the Second Division of the Court of Tax Appeals which was opposed by the CIR. The Second Division of the Court of Tax Appeals granted the Motion for Execution but the CIR appealed the said decision to the Court of Tax Appeals *En Banc*. On May 27, 2008, the Court of Tax Appeals *En Banc* denied the said appeal and upheld the decision of the Second Division of the Court of Tax Appeals. A Writ of Execution dated October 2, 2008 has been issued by the Second Division of the Court of Tax Appeals addressed to the CIR.



The case of the claim for refund of erroneously paid withholding tax on separation pay was denied by the Second Division of the Supreme Court in its Decision dated January 31, 2008. PLDT filed a Motion for Reconsideration on the said Decision, and the same was denied with finality in a Resolution dated August 11, 2008.

### ***Local Business and Franchise Taxes***

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

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

### ***Real Property Tax***

Based on its franchise and court precedents, Smart has long taken the position that it is exempt from property tax.

The tax provision under Smart's franchise (R. A. 7294) provides that "*the grantee, its successors or assignees shall be liable to pay the same taxes on their real estate, buildings and personal property, exclusive of this franchise, as other persons or corporations which are now or hereafter may be required by law to pay.*"

In a dispute involving real property taxes levied on Smart by the City of Surigao, the Court of Appeals held in 2006 that Smart was exempt from the payment of real property taxes on its properties that are actually, directly and exclusively used in the operation of its franchise.

However, notwithstanding that the Supreme Court held in two earlier decisions in respect of other telecommunications operators that all real properties which are actually, directly and exclusively used in the operation of the franchise are exempted from any property tax, the Supreme Court held in December 2008 in a decision involving Digital Telecommunications Philippines, Inc. that a franchisee is liable to pay taxes on its real estate and personal property, except for taxes on the franchise itself. Although it is not clear from the court rulings as to the scope of the tax obligations of Smart under the franchise, Smart may be liable for real property taxes on its properties in view of the Supreme Court's decision in December 2008.

For more information, see *Note 25 – Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 7.

## **Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this annual report.

## **PART II – OPERATIONAL AND FINANCIAL INFORMATION**

## **Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

### **Market Information**

#### ***Common Capital Stock and ADSs***

The shares of common stock PLDT are listed and traded on the PSE and, prior to October 19, 1994, were listed and traded on the American Stock Exchange and Pacific Exchange in the United States. On October 19, 1994, an American Depositary Receipt, or ADR facility was established, pursuant to which Citibank, N.A., as the Depositary, issued ADRs evidencing American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5 per

share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depository of PLDT's ADR Facility. The ADSs are listed on the NYSE and are traded on the NYSE under the symbol of "PHI".

For the two months ended February 28, 2009, a total of 4.0 million shares of PLDT's common capital stock were traded on the Philippine Stock Exchange. During the same period, the volume of trading was 4.2 million ADSs on the NYSE.

As at December 31, 2008, 10,731 stockholders were Philippine persons and held approximately 36% of PLDT's common capital stock. In addition, as at December 31, 2008, there were a total of approximately 45 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 368 holders.

High and low sales prices for PLDT's common shares on the PSE and ADSs on the NYSE for each of the full quarterly period during 2008 and 2007 and for the first two months of 2009 were as follows:

	<u>Philippine Stock Exchange</u>		<u>New York Stock Exchange</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
2009				
First Quarter				
January	Php2,240.00	Php2,010.00	US\$48.29	US\$42.18
February	2,305.00	2,080.00	49.80	43.56
2008				
First Quarter	3,175.00	2,520.00	76.72	61.49
Second Quarter	2,820.00	2,285.00	68.96	50.95
Third Quarter	2,795.00	2,240.00	62.97	51.10
Fourth Quarter	2,725.00	1,810.00	57.38	36.05
2007				
First Quarter	2,820.00	2,250.00	56.62	45.25
Second Quarter	2,730.00	2,390.00	58.88	50.05
Third Quarter	2,950.00	2,270.00	65.16	48.00
Fourth Quarter	3,285.00	2,900.00	76.30	64.90

## Holders

As at February 28, 2009, there were 12,216 holders of record of PLDT's common shares. Listed below were the top 20 common shareholders, including their nationalities, the number of shares held, the amount of their holdings, and the approximate percentages of their respective shareholdings to PLDT's total outstanding common stocks:

Name of Holder of Record	Nationality	Number of Shares Held	Amount of Holding	Approximate % to Total Outstanding Common Stock
1. PCD Nominee Corporation	Various	44,533,819	Php222,669,095 }	32.83
	Filipino	17,008,840		
2. J. P. Morgan Asset Holdings (Hong Kong) Ltd.	Chinese	43,097,297	215,486,485	22.99
3. Philippine Telecommunications Investment Corporation	Filipino	26,034,263	130,171,315	13.89
4. NTT DoCoMo, Inc.	Japanese	18,234,821	91,174,105	9.73
5. Metro Pacific Resources, Inc.	Filipino	15,745,172	78,725,860	8.40
6. NTT Communications Corporation	Japanese	12,633,487	63,167,435	6.74
7. Social Security System, or SSS	Filipino	5,024,788	25,123,940	2.68
8. Great Pacific Life Assurance Corp.	Filipino	726,374	3,631,870	0.39
9. Pan Malayan Management & Investment	Filipino	553,200	2,766,000	0.30
10. Manuel V. Pangilinan	Filipino	221,450	1,107,250	0.12
11. Cede & Company	American	201,523	1,007,615	0.11
12. Land Bank of the Philippines	Filipino	140,850	704,250	0.08
13. Albert del Rosario	Filipino	125,004	625,020	0.07
14. Edward &/or Anita Tortorici	American	96,874	484,370	0.05
15. Enrique T. Yuchengco, Inc.	Filipino	59,868	299,340	0.03
16. JDC Investment Realty Enterprises, Inc.	Filipino	47,708	238,540	0.03
17. Carmencita O. Reyes	Filipino	45,406	227,030	0.02
18. Par Investment & Realty Corporation	Filipino	38,390	191,950	0.02
19. China Banking Corporation	Filipino	37,606	188,030	0.02
20. Pacific Fund, Inc.	Filipino	30,678	153,390	0.02
		<b>184,637,418</b>	<b>Php923,187,090</b>	

## Dividends

The following table shows the dividends declared to common shareholders from the earnings for the years ended December 31, 2006, 2007 and 2008:

Earnings	Date		Amount		
	Approved	Record	Payable	Per share	Total Declared (in millions)
2006	August 8, 2006	August 21, 2006	September 21, 2006	Php50	Php9,379
2006	March 6, 2007	March 20, 2007	April 20, 2007	50	9,429
2006	August 7, 2007	August 24, 2007	September 24, 2007	40	7,548
				140	26,356
2007	August 7, 2007	August 24, 2007	September 24, 2007	60	11,322
2007	March 4, 2008	March 19, 2008	April 21, 2008	68	12,834
2007	March 4, 2008	March 19, 2008	April 21, 2008	56	10,570
				184	34,726
2008	August 5, 2008	August 22, 2008	September 22, 2008	70	13,140
2008	March 3, 2009	March 18, 2009	April 21, 2009	70	13,124
2008	March 3, 2009	March 18, 2009	April 21, 2009	60	11,249
				200	37,513

Our current policy is to declare and pay dividends taking into consideration the interests of our shareholders as well as our working capital, capital expenditures and debt servicing requirements. Also taken into consideration are our ability to meet loan covenant requirements in the declaration and payment of dividends as discussed in *Note 17 – Equity* and *Note 18 – Interest-bearing Financial Liabilities* to the accompanying audited consolidated financial statements in Item 7. The retention of earnings is necessary to meet the funding requirements of our business expansion and development programs. Unappropriated retained earnings of PLDT include undistributed earnings representing accumulated equity in the net earnings of our subsidiaries, which are not available for distribution as dividends until received in the form of dividends from such subsidiaries (see *Note 17 – Equity* to the accompanying audited consolidated financial statements in Item 7). Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT's transfer agent in Manila, which acts as the dividend-disbursing agent, converts the peso dividends into U.S. dollars at the prevailing exchange rates, and remits the dollar proceeds abroad, net of applicable withholding tax.

## Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and the related notes as at and for the years ended December 31, 2008, 2007 and 2006 included elsewhere in this Annual Report. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements.*

### Selected Financial Data and Key Performance Indicators

	2008	2007	2006
	(in millions, except ratio of earnings to fixed charges)		
<b>Statement of Income Data:</b>			
Revenues .....	Php145,582	Php137,958	Php127,943
Wireless .....	95,597	88,553	80,840
Fixed line .....	49,686	48,832	49,255
Information and communications technology .....	10,983	10,322	6,890
Expenses .....	85,786	84,456	82,055
Other expenses .....	5,305	245	3,657
Net income attributable to equity holders of PLDT .....	34,635	36,004	35,138
Net income .....	35,298	35,978	35,341
Net income margin .....	24%	26%	28%
<b>Balance Sheet Data:</b>			
Cash and cash equivalents and short-term investments.....	40,354	30,862	25,197
Total assets .....	252,558	240,158	242,118
Interest-bearing financial liabilities – net of current portion ..	58,910	53,387	65,244
Long-term debt – net .....	58,899	53,372	63,769
Total equity .....	106,969	112,511	104,067
<b>Other Data:</b>			
Net cash provided by operating activities .....	78,302	77,418	69,211
Capital expenditures .....	25,203	24,824	20,674
Net cash used in investing activities .....	17,014	31,319	35,790
Net cash used in financing activities .....	45,464	44,819	45,900

## Overview

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

- *Wireless* — wireless telecommunications services provided by Smart, Piltel, and CURE, our cellular service providers; SBI, and Airborne Access, our wireless broadband providers; Wolfpac, our wireless content operator; Mabuhay Satellite and 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, ClarkTel, SubicTel, PLDT-Maratel, Piltel (on June 4, 2008, PLDT acquired the fixed line assets of Piltel), PLDT Global and BCC, all of which account for approximately 2% of our consolidated fixed line subscribers; and
- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, IP-based solutions and multimedia content delivery provided by ePLDT; knowledge processing solutions provided by the SPi Group; customer interaction solutions provided under the umbrella brand name *ePLDT Ventus*, through Ventus, Parlance and Vocativ; internet access and online gaming services provided by Infocom, Digital Paradise, netGames and Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 9 – Investments in Associates and Joint Ventures* to the accompanying consolidated financial statements in Item 7.

## Results of Operations

The table below shows the contribution by each of our business segments to our revenues, expenses, other income (expenses), income (loss) before income tax, net income (loss) and net income (loss) attributable to equity holders of PLDT for the years ended December 31, 2008, 2007 and 2006. Most of our revenues are derived from our operations within the Philippines. Our revenues derived from outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Total
	(in millions)				
<b>For the year ended December 31, 2008</b>					
Revenues	Php95,597	Php49,686	Php10,983	(Php10,684)	Php145,582
Expenses	47,589	35,733	13,267	(10,803)	85,786
Other expenses	2,640	2,476	1	188	5,305
Income (loss) before income tax	45,368	11,477	(2,285)	(69)	54,491
Net income (loss)	29,333	8,220	(2,186)	(69)	35,298
Net income (loss) attributable to equity holders of PLDT	28,458	8,215	(1,969)	(69)	34,635
<b>For the year ended December 31, 2007</b>					
Revenues	88,553	48,832	10,322	(9,749)	137,958
Expenses	45,399	37,891	11,005	(9,839)	84,456
Other income (expenses)	2,577	(3,273)	472	(21)	(245)
Income (loss) before income tax	45,731	7,668	(211)	69	53,257
Net income (loss)	30,730	5,273	(94)	69	35,978
Net income attributable to equity holders of PLDT	30,635	5,270	30	69	36,004

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Total
	(in millions)				
<b>For the year ended December 31, 2006</b>					
Revenues	80,840	49,255	6,890	(9,042)	127,943
Expenses	42,873	41,149	7,175	(9,142)	82,055
Other expenses	1,113	2,380	64	100	3,657
Income (loss) before income tax	36,854	5,726	(349)	–	42,231
Net income (loss)	30,376	5,277	(312)	–	35,341
Net income (loss) attributable to equity holders of PLDT	30,096	5,275	(233)	–	35,138

The peso financial information in the following discussions has been translated to U.S. dollars at the exchange rate at December 31, 2008, of Php47.647 to US\$1.00, as quoted through the Philippine Dealing System.

## 2008 Compared to 2007

### On a Consolidated Basis

#### Revenues

Our revenues for 2008 increased by Php7,624 million, or 6%, to Php145,582 million from Php137,958 million in 2007. This increase was primarily due to an increase in our service revenues by Php7,395 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.

The following table shows the breakdown of our total revenues for the years ended December 31, 2008 and 2007 by business segment:

	2008	%	2007	%	Change	
					Amount	%
	(in millions)					
Wireless	Php95,597	66	Php88,553	64	Php7,044	8
Fixed line	49,686	34	48,832	35	854	2
Information and communications technology	10,983	7	10,322	8	661	6
Inter-segment transactions	(10,684)	(7)	(9,749)	(7)	(935)	(10)
Total	Php145,582	100	Php137,958	100	Php7,624	6

#### Expenses

Our expenses in 2008 increased by Php1,330 million, or 2%, to Php85,786 million from Php84,456 million in 2007 largely resulting from increases in asset impairment, repairs and maintenance, rent and other operational-related expenses, which were partly offset by lower depreciation and amortization, and professional and other contracted services. As a percentage of our total revenues, total expenses decreased to 59% in 2008 from 61% in 2007.

The following table shows the breakdown of our total expenses for the years ended December 31, 2008 and 2007 by business segment:

	2008	%	2007	%	Change	
					Amount	%
	(in millions)					
Wireless	Php47,589	55	Php45,399	54	Php2,190	5
Fixed line	35,733	42	37,891	45	(2,158)	(6)
Information and communications technology	13,267	16	11,005	13	2,262	21
Inter-segment transactions	(10,803)	(13)	(9,839)	(12)	(964)	10
Total	Php85,786	100	Php84,456	100	Php1,330	2

## ***Other Expenses***

Other expenses increased by Php5,060 million to Php5,305 million in 2008 from Php245 million in 2007. The increase was primarily due to foreign exchange losses of Php6,170 million on account of a loss on revaluation of net foreign currency-denominated liabilities owing to the depreciation of the Philippine peso in 2008 compared with a net foreign exchange gain of Php2,976 million in 2007. This increase was partly offset by a gain on derivative transactions of Php3,812 million relating to the gain in the mark-to-market valuation of various financial instruments and the impact of the de-designation of foreign currency swap and options beginning January 1, 2008 compared to a loss on derivative transactions of Php1,044 million in 2007.

The following table shows the breakdown of our total other expenses for the years ended December 31, 2008 and 2007 by business segment:

	2008	%	2007	%	Change	
					Amount	%
	(in millions)					
Wireless	(Php2,640)	50	Php2,577	1,052	(Php5,217)	(202)
Fixed line	(2,476)	47	(3,273)	(1,336)	797	(24)
Information and communications technology	(1)	–	472	193	(473)	(100)
Inter-segment transactions	(188)	3	(21)	(9)	(167)	795
Total	(Php5,305)	100	(Php245)	100	(Php5,060)	2,065

## ***Provision for Income Tax***

Provision for income tax increased by Php1,914 million, or 11%, to Php19,193 million in 2008 compared with Php17,279 million in 2007 mainly due to higher taxable income and non-deductible expenses complemented by the derecognition of deferred income tax assets by ACeS Philippines in 2008 from our wireless business. In 2008, effective tax rate was 35% compared with 32% in 2007.

## ***Net Income***

As a result, our consolidated net income in 2008 was Php35,298 million, a decrease of Php680 million, or 2%, compared to Php35,978 million in 2007 due to higher expenses complemented by higher provision for income tax which more than offset the increase in revenues. The following table shows the breakdown of our consolidated net income for the years ended December 31, 2008 and 2007 by business segment:

	2008	%	2007	%	Change	
					Amount	%
	(in millions)					
Wireless	Php29,333	83	Php30,730	85	(Php1,397)	(5)
Fixed line	8,220	23	5,273	15	2,947	56
Information and communications technology	(2,186)	(6)	(94)	–	(2,092)	2,226
Inter-segment transactions	(69)	–	69	–	(138)	(200)
Total	Php35,298	100	Php35,978	100	(Php680)	(2)

## On a Business Segment Basis

### Wireless

#### Revenues

The following table summarizes the total revenues from our wireless business for the years ended December 31, 2008 and 2007 by service segment:

	2008	%	2007	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Wireless Services:						
Service revenues						
Cellular	Php87,518	92	Php82,334	93	Php5,184	6
Wireless broadband, satellite and others	6,075	6	4,165	5	1,910	46
	93,593	98	86,499	98	7,094	8
Non-Service Revenues:						
Sale of cellular handsets and SIM-packs	2,004	2	2,054	2	(50)	(2)
Total Wireless Revenues	Php95,597	100	Php88,553	100	Php7,044	8

#### Service Revenues

Our wireless service revenues increased by Php7,094 million, or 8%, to Php93,593 million in 2008 as compared with Php86,499 million in 2007, 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 subscriber base. Voice revenues also increased due to the growth in international inbound and outbound call volumes in 2008 compared with 2007. However, because the growth in our subscriber base was mainly in the lower income segment of the Philippine wireless market, our cellular average monthly ARPUs for the year ended December 31, 2008 was lower compared with 2007. Such increases were also partially offset by the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues from Php46.184 in 2007 to Php44.474 in 2008. As a percentage of our total wireless revenues, service revenues contributed 98% and 97% in 2008 and 2007, respectively.

#### Cellular Service

Our cellular service revenues in 2008 amounted to Php87,518 million, an increase of Php5,184 million, or 6%, from Php82,334 million in 2007. Cellular service revenues accounted for 94% of our wireless service revenues in 2008 as compared with 95% in 2007.

The following table shows the breakdown of our cellular service revenues and other key measures of our cellular business as at and for the years ended December 31, 2008 and 2007:

	2008	2007	Increase	
			Amount	%
	(in millions)			
Cellular service revenues	Php87,518	Php82,334	Php5,184	6
<i>By service type</i>				
Prepaid	85,079	80,197	4,882	6
Postpaid	78,743	74,284	4,459	6
	6,336	5,913	423	7
<i>By component</i>				
Voice	85,079	80,197	4,882	6
Data	37,287	36,105	1,182	3
	47,792	44,092	3,700	8
<i>Others</i> <sup>(1)</sup>	2,439	2,137	302	14

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



	2008	2007	Increase	
			Amount	%
Cellular subscriber base	35,224,604	30,041,030	5,183,574	17
Prepaid	34,826,468	29,699,150	5,127,318	17
<i>Smart</i>	20,501,617	19,997,324	504,293	3
<i>Piltel</i>	14,308,493	9,701,826	4,606,667	47
<i>CURE (acquired on April 25, 2008)</i>	16,358	–	16,358	100
Postpaid	398,136	341,880	56,256	16
Systemwide traffic volumes (in millions)				
Calls (in minutes)	6,708	6,355	353	6
Domestic – outbound	3,810	3,799	11	–
International	2,898	2,556	342	13
<i>Inbound</i>	2,677	2,355	322	14
<i>Outbound</i>	221	201	20	10
SMS count	249,691	227,028	22,663	10
Text messages	248,051	225,083	22,968	10
Domestic	247,751	224,818	22,933	10
<i>Bucket-Priced</i>	223,373	199,326	24,047	12
<i>Standard</i>	24,378	25,492	(1,114)	(4)
International	300	265	35	13
Value-Added Services	1,614	1,903	(289)	(15)
Financial Services	26	42	(16)	(38)

Revenues attributable to our cellular prepaid service amounted to Php78,743 million in 2008, a 6% increase over the Php74,284 million earned in 2007. Prepaid service revenues in each of the years 2008 and 2007 accounted for 93% of voice and data revenues. Revenues attributable to Smart's postpaid service amounted to Php6,336 million in 2008, a 7% increase over the Php5,913 million earned in 2007, and accounted for 7% of voice and data revenues in each of the years 2008 and 2007.

#### *Voice Services*

Cellular revenues from voice services, which include all voice traffic and voice VAS such as voice mail and outbound international roaming, increased by Php1,182 million, or 3%, to Php37,287 million in 2008 from Php36,105 million in 2007 primarily due to increased domestic voice revenues brought about by bucket voice offers and the growth in international call volumes, partially offset by the unfavorable effect of an appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar in 2008 on our dollar-linked revenues from Php46.184 in 2007 to Php44.474 in 2008. Cellular voice services accounted for 43% of cellular service revenues in 2008 as compared with 44% in 2007.

Domestic outbound and international inbound and outbound calls totaled 6,708 million minutes in 2008, an increase of 353 million, or 6%, from 6,355 million minutes in 2007. International inbound calls totaled 2,677 million minutes in 2008, an increase of 322 million, or 14%, as compared with 2,355 million minutes in 2007, mainly due to an increase in subscriber base and strategic arrangements with telecommunication service providers in jurisdictions with a significant number of overseas Filipino workers.

#### *Data Services*

Cellular revenues from data services, which include all text messaging-related services as well as VAS, increased by Php3,700 million, or 8%, to Php47,792 million in 2008 from Php44,092 million in 2007. Cellular data services accounted for 55% of cellular service revenues in 2008 as compared with 54% in 2007.

The following table shows the breakdown of our cellular data revenues for the years ended December 31, 2008 and 2007:

	2008	2007	Increase (Decrease)	
			Amount	%
	(in millions)			
Text messaging				
Domestic	Php43,330	Php39,430	Php3,900	10
<i>Bucket-Priced</i>	27,245	20,141	7,104	35
<i>Standard</i>	16,085	19,289	(3,204)	(17)
International	1,877	1,835	42	2
	<u>45,207</u>	<u>41,265</u>	<u>3,942</u>	<u>10</u>
Value-added services				
Standard <sup>(1)</sup>	1,469	1,802	(333)	(18)
Rich Media <sup>(2)</sup>	627	352	275	78
<i>Pasa Load</i>	444	594	(150)	(25)
	<u>2,540</u>	<u>2,748</u>	<u>(208)</u>	<u>(8)</u>
Financial services				
<i>Smart Money</i>	41	75	(34)	(45)
Mobile Banking	4	4	–	–
	<u>45</u>	<u>79</u>	<u>(34)</u>	<u>(43)</u>
Total	<u>Php47,792</u>	<u>Php44,092</u>	<u>Php3,700</u>	<u>8</u>

(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 Php45,207 million in 2008, an increase of Php3,942 million, or 10%, compared with Php41,265 million in 2007, and accounted for 95% and 94% of the total cellular data revenues in 2008 and 2007, respectively. The increase in revenues from text messaging-related services resulted mainly from Smart's various bucket-priced text promotional offerings which more than offset the decline in our standard texting services. Text messaging revenues from the various bucket plans totaled Php27,245 million in 2008, an increase of Php7,104 million, or 35%, compared with Php20,141 million in 2007. On the other hand, standard text messaging revenues declined by Php3,204 million, or 17%, to Php16,085 million in 2008 compared with Php19,289 million in 2007.

Standard text messages totaled 24,378 million in 2008, a decrease of 1,114 million, or 4%, from 25,492 million in 2007 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in 2008 totaled 223,373 million, an increase of 24,047 million, or 12%, as compared with 199,326 million in 2007. The growth in bucket-priced text traffic together with revenue growth in bucket-priced text messaging is reflective of a shift from unlimited text packages to low-denominated text packages with a fixed number of SMS, resulting in improved yield per SMS and increased text revenues.

VAS, which contributed revenues of Php2,540 million in 2008, decreased by Php208 million, or 8%, from Php2,748 million in 2007 primarily due to 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 introduction of low-denomination top-ups, partially offset by higher usage of rich media services in 2008 as compared with 2007.

#### *Subscriber Base, ARPU and Churn Rates*

In 2008, Smart and Piltel cellular subscribers totaled 35,224,604, an increase of 5,183,574, or 17%, over their combined cellular subscriber base of 30,041,030 in 2007. Our cellular prepaid subscriber base grew by 17% to 34,826,468 in 2008 from 29,699,150 in 2007, while our postpaid subscriber base increased by 16% to 398,136 in 2008 from 341,880 in 2007. Prepaid and postpaid subscribers accounted for 99% and 1%, respectively, of our total subscriber base in 2008 and 2007. Prepaid and postpaid subscribers reflected net activations of 5,127,318 and 56,256, respectively, in 2008.

Our net subscriber activations for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007	Increase (Decrease)	
			Amount	%
Prepaid	5,127,318	5,842,329	(715,011)	(12)
Smart	504,293	3,114,882	(2,610,589)	(84)
Piltel	4,606,667	2,727,447	1,879,220	69
CURE	16,358	–	16,358	100
Postpaid	56,256	23,317	32,939	141
Total	5,183,574	5,865,646	(682,072)	(12)

Our quarterly net subscriber activations over the eight quarters in 2008 and 2007 are as follows:

	2008				2007			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Prepaid	1,533,812	1,660,040	917,528	1,015,938	1,301,154	1,615,246	1,148,283	1,777,646
Smart	282,044	130,697	111,487	(3,577)	880,281	1,050,678	763,257	420,666
Piltel	1,251,768	1,529,343	806,041	1,019,515	420,873	564,568	385,026	1,356,980
Postpaid	1,117	5,027	17,816	32,296	6,921	7,403	5,704	3,289
Total	1,534,929	1,665,067	935,344	1,048,234	1,308,075	1,622,649	1,153,987	1,780,935

For Smart prepaid, the average monthly churn rate for 2008 and 2007 were 4.7% and 3.5%, respectively, while the average monthly churn rate for Piltel subscribers in 2008 and 2007 were 4.8% and 3.5%, respectively.

The average monthly churn rate for Smart's postpaid subscribers was 1.2% for 2008 and 1.3% in 2007. 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 the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is disconnected. Within this 44-day period, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

The following table summarizes our cellular average monthly ARPUs for the years ended December 31, 2008 and 2007:

	Gross <sup>(1)</sup>		Decrease		Net <sup>(2)</sup>		Decrease	
	2008	2007	Amount	%	2008	2007	Amount	%
Prepaid								
Smart	Php290	Php312	(Php22)	(7)	Php230	Php254	(Php24)	(9)
Piltel	194	221	(27)	(12)	158	184	(26)	(14)
Prepaid – Blended <sup>(3)</sup>	254	285	(31)	(11)	203	233	(30)	(13)
Postpaid – Smart	2,065	2,091	(26)	(1)	1,483	1,485	(2)	–
Prepaid and Postpaid Blended <sup>(4)</sup>	274	307	(33)	(11)	217	248	(31)	(13)

(1) Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, including (i) discounts, (ii) allocated content-provider costs and (iii) 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, net of (i) discounts, (ii) allocated content-provider costs and (iii) interconnection income net of interconnection expense, by the average number of subscribers in the month.

(3) The average monthly ARPU of Smart and Piltel.

(4) 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 2008 was Php254, a decrease of 11%, compared with Php285 in 2007. The decrease was primarily due to a decline in the average outbound domestic voice,

text messaging, VAS and inbound revenue per subscriber in 2008 compared with 2007. On a net basis, prepaid blended average monthly ARPU in 2008 was Php203, a decrease of 13%, compared with Php233 in 2007.

Gross average monthly ARPU for postpaid subscribers decreased by 1% to Php2,065 while net average monthly ARPU decreased to Php1,483 in 2008 as compared with Php2,091 and Php1,485 in 2007, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php274 in 2008, a decrease of 11%, compared with Php307 in 2007. Net average monthly blended ARPU decreased by 13% to Php217 in 2008 as compared with Php248 in 2007.

Our average quarterly prepaid and postpaid ARPUs for the years ended December 31, 2008 and 2007 were as follows:

	Prepaid				Postpaid	
	Smart		Piltel		Smart	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
<b>2008</b>						
First Quarter	Php292	Php230	Php207	Php163	Php2,013	Php1,472
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	2,037	1,445
<b>2007</b>						
First Quarter	Php323	Php267	Php228	Php187	Php2,045	Php1,483
Second Quarter	324	265	233	198	2,141	1,526
Third Quarter	293	239	206	173	2,073	1,464
Fourth Quarter	307	244	216	177	2,105	1,467

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

(2) Net quarterly ARPU is calculated by dividing gross cellular service revenues for the quarter, net of (i) discounts, (ii) allocated content-provider costs and (iii) interconnection income net of interconnection expense, by the average number of subscribers in 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 the mobile virtual network operations of PLDT Global's subsidiary. Gross revenues from these services in 2008 amounted to Php6,075 million, an increase of Php1,910 million, or 46%, from Php4,165 million in 2007 principally due to the growth in our wireless broadband business. This was partially offset by lower satellite transponder rental revenues owing to lower rental charges and a decrease in the number of transponders being leased out as well as by the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar from Php46.184 in 2007 to Php44.474 in 2008, which adversely affected our U.S. dollar and U.S. dollar-linked revenues.

SBI offers a number of wireless broadband services and had 547,090 subscribers in 2008 as compared with 301,738 in 2007. *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. Wireless broadband revenues contributed Php4,327 million to wireless service revenues in 2008, increasing by Php1,938 million, or 81%, from Php2,389 million in 2007.

On November 22, 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 to this plan simply have to plug the data modem in order to access the internet with speeds ranging from 384 to 512 kbps. The monthly service fee of Php799 includes 40 hours per month of internet usage. A

one-time charge for the modem costs Php1,200. On April 13, 2008, we launched the *SmartBro Plug-It Prepaid* which offers 30-minute internet access for every Php10 worth of load.

We also offer *PLDT WeRoam*, a wireless broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE and WiFi technologies). This service had 16,243 subscribers in 2008 compared with 13,066 subscribers in 2007 and contributed Php203 million to our data revenues in 2008, increasing by Php61 million, or 43%, from Php142 million in 2007.

### ***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 Php50 million, or 2%, to Php2,004 million in 2008 as compared with Php2,054 million in 2007 primarily due to lower average retail price per SIM-pack and a lower quantity of phonekits sold, partly offset by a higher volume of SIM-packs and broadband data modems sold in 2008.

### ***Expenses***

Expenses associated with our wireless business in 2008 amounted to Php47,589 million, an increase of Php2,190 million, or 5%, from Php45,399 million in 2007. A significant portion of this increase was attributable to provisions, compensation and employee benefits, repairs and maintenance, taxes and licenses, rent and asset impairment, partially offset by lower expenses related to professional and other contracted services, depreciation and amortization, and cost of sales. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 50% and 51% in 2008 and 2007, respectively.

Cellular business expenses accounted for 90% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 10% of our wireless business expenses in 2008 compared with 91% and 9%, respectively, in 2007.

The following table summarizes our total wireless-related expenses for the years ended December 31, 2008 and 2007 and the percentage of each expense item to the total:

	2008		2007		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Wireless Services:						
Depreciation and amortization	Php11,975	25	Php12,202	27	(Php227)	(2)
Rent	9,267	20	8,751	19	516	6
Compensation and employee benefits <sup>(1)</sup>	5,433	11	4,608	10	825	18
Cost of sales	4,236	9	4,446	10	(210)	(5)
Repairs and maintenance	4,230	9	3,634	8	596	16
Selling and promotions	3,781	8	3,803	8	(22)	(1)
Professional and other contracted services	2,529	5	3,238	7	(709)	(22)
Taxes and licenses	1,872	4	1,348	3	524	39
Communication, training and travel	1,091	2	1,083	3	8	1
Asset impairment	1,006	2	563	1	443	79
Provisions	897	2	–	–	897	100
Insurance and security services	722	2	783	2	(61)	(8)
Amortization of intangible assets	133	–	158	–	(25)	(16)
Other expenses	417	1	782	2	(365)	(47)
Total	Php47,589	100	Php45,399	100	Php2,190	5

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

Depreciation and amortization charges decreased by Php227 million, or 2%, to Php11,975 million in 2008 principally due to a decrease in our depreciable asset base consisting mainly of 2G networks, partly offset by increased depreciation on the growing asset base of 3G and broadband networks, and broadband customer-deployed equipment.

Rent expenses increased by Php516 million, or 6%, to Php9,267 million on account of an increase in international and domestic circuits leased by Smart from PLDT, as well as higher site and office rental expenses. In 2008, we had 5,284 GSM cell sites and 8,477 base stations, compared with 5,001 GSM cell sites and 7,825 base stations in 2007.

Compensation and employee benefits expenses increased by Php825 million, or 18%, to Php5,433 million primarily due to a 3% growth in Smart's headcount, merit-based increases and employee upgrades and promotions partly offset by lower LTIP costs due to a decrease in our share price. Smart and subsidiaries' employee headcount increased by 185 to 5,548 in 2008 as compared with 5,363 in 2007. For further discussion of our LTIP, please see *Note 23 – Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 7.

Cost of sales decreased by Php210 million, or 5%, to Php4,236 million primarily due to a lower average cost of cellular phonekits and SIM-packs, and a lower quantity of phonekits sold, partly offset by a higher quantity of SIM-packs and broadband data modems sold in 2008.

Repairs and maintenance expenses increased by Php596 million, or 16%, to Php4,230 million mainly due to an increase in network maintenance costs, as well as an increase in electricity consumption and fuel costs for power generation.

Selling and promotion expenses decreased by Php22 million, or 1%, to Php3,781 million primarily due to decreases in advertising, promotion and public relations expenses and printing cost of prepaid cards with the dominance of our e-Loading service, partly offset by higher commission expense.

Professional and other contracted services decreased by Php709 million, or 22%, to Php2,529 million primarily due to lower technical service, consultancy and payment facility fees. In 2007, we changed the estimated useful life of a prepaid management fee to effectively end that year.

Taxes and licenses increased by Php524 million, or 39%, to Php1,872 million primarily due to network expansion, the imposition of new licenses and fees on telecommunications entities and non-creditable input tax.

Communication, training and travel expenses increased by Php8 million, or 1%, to Php1,091 million primarily due to higher mailing, fuel and communication expenses incurred in 2008.

Asset impairment increased by Php443 million, or 79%, to Php1,006 million mainly due to the impairment of intangible assets relating to technology and license costs for development activities covering an IP communications platform and GSM connectivity service for the commercial shipping sector, and impairment on investment in ACeS International Limited through ACeS Philippines. Such impairments were partially offset by lower provision for inventory obsolescence and doubtful accounts. For discussion on impairment on intangible assets, please see *Note 11 – Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 7.

Provisions of Php897 million pertained to provisions for assessments. Please see *Note 25 – Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 7 for further details.

Insurance and security services decreased by Php61 million, or 8%, to Php722 million primarily due to lower insurance and bond premiums.

Amortization of intangible assets decreased by Php25 million, or 16%, to Php133 million mainly due to intangible assets relating to customer list arising from Smart's acquisition of SBI which was fully amortized by August 2007.

Other expenses decreased by Php365 million, or 47%, to Php417 million primarily due to lower various business and operational-related expenses.

### ***Other Income (Expenses)***

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2008 and 2007:

	2008	2007	Change	
			Amount	%
			(in millions)	
Other Income (Expenses)				
Interest income	Php1,197	Php1,186	Php11	1
(Losses) gains on derivative transactions – net	(241)	278	(519)	(187)
Foreign exchange (losses) gains – net	(1,771)	2,649	(4,420)	(167)
Financing costs	(2,029)	(2,299)	270	12
Others	204	763	(559)	(73)
Total	<u>(Php2,640)</u>	<u>Php2,577</u>	<u>(Php5,217)</u>	<u>(202)</u>

Our wireless business segment generated other expenses of Php2,640 million in 2008, a change of Php5,217 million, or 202%, from other income of Php2,577 million in 2007 primarily due to the (i) recognition in 2008 of net foreign exchange losses of Php1,771 million on account of a loss on revaluation of net foreign currency-denominated liabilities owing to the depreciation of the Philippine peso from Php41.411 as at December 31, 2007 to Php47.647 as at December 31, 2008 compared with a net foreign exchange gain of Php2,649 million in 2007; and (ii) a net loss on derivative transactions of Php241 million in 2008 relating to the loss in the mark-to-market valuation of forward contracts and embedded derivatives on service and purchase contracts in 2008 compared with a net gain on derivative transactions of Php278 million in 2007.

### ***Provision for Income Tax***

Provision for income tax increased by Php1,034 million, or 7%, to Php16,035 million in 2008 from Php15,001 million in 2007. In 2008, the effective tax rate for our wireless business was 35% as compared with 33% in 2007 mainly due to higher non-deductible expenses and derecognition of deferred income tax assets by ACeS Philippines in 2008.

### ***Net Income***

Our wireless business segment recorded a net income of Php29,333 million in 2008, a decrease of Php1,397 million, or 5%, from Php30,730 million recorded in 2007 on account of a 5% increase in wireless-related expenses and higher provision for income tax, partially offset by an 8% increase in wireless service revenues.

### **Fixed Line**

#### ***Revenues***

Revenues generated from our fixed line business in 2008 totaled Php49,686 million, an increase of Php854 million, or 2%, from Php48,832 million in 2007.

The following table summarizes the total revenues from our fixed line business for the years ended December 31, 2008 and 2007 by service segment:

	2008	%	2007	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Fixed Line Services:						
Service revenues						
Local exchange	Php15,923	32	Php16,205	33	(Php282)	(2)
International long distance	7,063	14	8,674	18	(1,611)	(19)
National long distance	6,207	13	6,338	13	(131)	(2)
Data and other network	18,607	37	15,921	32	2,686	17
Miscellaneous	1,466	3	1,413	3	53	4
	49,266	99	48,551	99	715	1
Non-Service Revenues:						
Sale of computers	420	1	281	1	139	49
Total Fixed Line Revenues	Php49,686	100	Php48,832	100	Php854	2

### 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 Php715 million, or 1%, to Php49,266 million in 2008 from Php48,551 million in 2007 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 Dignet 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

Our local exchange service revenues consist of: (i) flat monthly fees for our postpaid and fixed charges for our bundled voice and data services; (ii) amortization of installation charges and other one-time fees associated with the establishment of customer service; (iii) revenues from usage of prepaid cards for calls within the local area and any unused peso value of expired prepaid cards; and (iv) charges for special features, including bundled VAS such as call waiting, call forwarding, multi-party conference calling, speed calling and caller ID.

The following table summarizes the key measures of our local exchange service business as at and for the years ended December 31, 2008 and 2007:

	2008	2007	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php15,923	Php16,205	(Php282)	(2)
Number of fixed line subscribers	1,782,356	1,724,702	57,654	3
Postpaid	1,533,687	1,479,647	54,040	4
Prepaid	248,669	245,055	3,614	1
Number of fixed line employees	7,813	8,080	(267)	(3)
Number of fixed line subscribers per employee	228	213	15	7

Revenues from our local exchange service decreased by Php282 million, or 2%, to Php15,923 million in 2008 from Php16,205 million in 2007 primarily owing to a decrease in average revenue per user on account of lower fixed charges due to bundling of 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 32% in 2008 as compared with 33% in 2007.



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. 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 December 31, 2008, there were a total of 125,621 active *PLDT Landline Plus* subscribers, of which 61,604 and 64,017 were postpaid and prepaid subscribers, respectively.

#### *International Long Distance Service*

The following table shows our fixed line international long distance service revenues and call volumes for the years ended December 31, 2008 and 2007:

	2008	2007	Decrease	
			Amount	%
Total international long distance service revenues (in millions)	Php7,063	Php8,674	(Php1,611)	(19)
Inbound	5,667	7,127	(1,460)	(20)
Outbound	1,396	1,547	(151)	(10)
International call volumes (in million minutes, except call ratio)	2,024	2,280	(256)	(11)
Inbound	1,786	2,007	(221)	(11)
Outbound	238	273	(35)	(13)
Inbound-outbound call ratio	7.5:1	7.4:1	–	–

Our total international long distance service revenues decreased by Php1,611 million, or 19%, to Php7,063 million in 2008 from Php8,674 million in 2007 primarily due to the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar in 2008, which adversely affected our U.S. dollar and U.S. dollar-linked revenues, a decrease in average settlement rate per minute for inbound calls and a decrease in inbound and outbound call volumes due to growth of cellular services and availability of alternative economical modes of communications, such as email, text messaging and/or lower international fixed line calling rates. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 14% in 2008 from 18% in 2007.

Our revenues from inbound international long distance service decreased by Php1,460 million, or 20%, to Php5,667 million from Php7,127 million in 2007 due to a decline in inbound traffic volume by 221 million minutes to 1,786 million minutes in 2008, coupled with a decrease in average settlement rate per minute due to the change in call mix with more traffic terminating to cellular operators where the net revenue retained by us is lower. The appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php44.474 in 2008 from Php46.184 in 2007 also contributed to the decrease in our inbound international long distance revenues in peso terms, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php151 million, or 10%, to Php1,396 million in 2008 from Php1,547 million in 2007 primarily due to a decline in outbound international call volumes and the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php44.474 in 2008 from Php46.184 in 2007, which adversely affected our U.S. dollar and U.S. dollar-linked revenues, resulting in a decrease in the average billing rates to Php43.95 in 2008 from Php46.79 in 2007 partially offset by an increase in average revenue per minute as a result of a higher average collection rate.

### National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2008 and 2007:

	2008	2007	Decrease	
			Amount	%
Total national long distance service revenues (in millions)	Php6,207	Php6,338	(Php131)	(2)
National long distance call volumes (in million minutes)	1,944	2,183	(239)	(11)

Our national long distance service revenues decreased by Php131 million, or 2%, to Php6,207 million in 2008 from Php6,338 million in 2007 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 accounted for 13% in 2008 and 2007.

### Data and Other Network Services

The following table shows information of our data and other network service revenues for the years ended December 31, 2008 and 2007:

	2008	2007	Increase (Decrease)	
			Amount	%
Data and other network service revenues (in millions)	Php18,607	Php15,921	Php2,6866	17
Number of DSL broadband subscribers	432,583	264,291	168,292	64
Number of PLDT Vibe narrowband subscribers	101,411	230,995	(129,584)	(56)

In 2008, our data and other network services posted revenues of Php18,607 million, an increase of Php2,686 million, or 17%, from Php15,921 million in 2007 primarily due to increases in leased lines, IP-based and packet-based data services, particularly Diginet and DFON rental, and PLDT DSL, partially offset by a decrease in PLDT Vibe services subscribers. The percentage contribution of this service segment to our fixed line service revenues increased to 38% in 2008 from 33% in 2007.

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 Php5,360 million in 2008, an increase of Php1,480 million, or 38%, from Php3,880 million in 2007 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 plans as part of promotions. DSL subscribers increased by 64% to 432,583 in 2008 compared with 264,291 subscribers in 2007.

PLDT Vibe revenues decreased by Php122 million, or 47%, to Php137 million in 2008 from Php259 million in 2007 primarily due to lower number of plan subscribers as well as the declining usage of our Vibe prepaid service. PLDT Vibe subscribers decreased by 56% to 101,411 in 2008 from 230,995 in 2007. The declining number of Vibe plans and regular monthly users for Vibe prepaid may be attributed to the migration from Vibe dial-up to DSL which is now priced more competitively.

The continued growth in data services revenues can be attributed to several product offerings. The steady demand for dedicated connectivity or private networking from the corporate market using PLDT's traditional international 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, Diginet, BRAINS, IP-VPN and *Shops.work*, among others – continue to provide us with a stable revenue source.

Diginet, our domestic private leased line service, has been providing Smart's increasing fiber optic and leased line data requirements. Diginet revenues decreased by Php75 million, or 1%, to Php7,216 million in 2008 as compared with Php7,291 million in 2007 mainly due to a decrease in Smart's DFON rental to Php5,444 million in 2008 from Php5,565 million in 2007.

### *Miscellaneous*

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. In 2008, these revenues increased by Php53 million, or 4%, to Php1,466 million from Php1,413 million in 2007 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 years 2008 and 2007.

### *Non-service Revenues*

Non-service revenues increased by Php139 million, or 49%, to Php420 million in 2008 from Php281 million in 2007 primarily due to an increase in computer sales resulting from an increase in subscriptions for our DSL service that is bundled with computers.

### *Expenses*

Expenses related to our fixed line business totaled Php35,733 million in 2008, a decrease of Php2,158 million, or 6%, as compared with Php37,891 million in 2007. The decrease was primarily due to lower depreciation and amortization, compensation and employee benefits and provisions, which were partly offset by increases in asset impairment, rent, repairs and maintenance, professional and other contracted services and other expenses.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2008 and 2007 and the percentage of each expense item to the total:

	2008		2007		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Fixed Line Services:						
Depreciation and amortization	Php11,901	33	Php15,477	41	(Php3,576)	(23)
Compensation and employee benefits <sup>(1)</sup>	9,093	25	10,411	27	(1,318)	(13)
Repairs and maintenance	4,634	13	3,772	10	862	23
Rent	2,492	7	1,799	5	693	39
Professional and other contracted services	2,143	6	1,727	5	416	24
Selling and promotions	1,715	5	1,552	4	163	11
Asset impairment	888	3	43	–	845	1,965
Taxes and licenses	769	2	877	2	(108)	(12)
Communication, training and travel	608	2	466	1	142	30
Insurance and security services	487	1	439	1	48	11
Cost of sales	356	1	300	1	56	19
Provisions	1	–	666	2	(665)	(100)
Other expenses	646	2	362	1	284	78
Total	Php35,733	100	Php37,891	100	(Php2,158)	(6)

<sup>(1)</sup> Includes salaries and employee benefits, LTIP, pension and MRP costs.

Depreciation and amortization charges decreased by Php3,576 million, or 23%, to Php11,901 million in 2008 due to a lower depreciable asset base in 2008 as compared with 2007. Our NGN roll-out progressed at a significantly slower pace in 2008 and thereby resulted in a lower level of depreciation and amortization charges in 2008.

Compensation and employee benefits expenses decreased by Php1,318 million, or 13%, to Php9,093 million primarily due to a decrease in 2008 pension benefits as a result of an increase in average discount rates used in actuarial valuation of defined benefit pension plans and lower LTIP costs

due to a decrease in our share price. For further discussion on our LTIP and pension benefits, please see *Note 23 – Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 7.

Repairs and maintenance expenses increased by Php862 million, or 23%, to Php4,634 million primarily due to higher maintenance costs of IT software and hardware and foreign cable and wire facilities as more operating and maintenance-related restorations were incurred in 2008 as compared with 2007.

Rent expenses increased by Php693 million, or 39%, to Php2,492 million due to the increase in international leased circuit charges and pole rental charges, partially offset by a decrease in transponder lease rentals.

Professional and other contracted services increased by Php416 million, or 24%, to Php2,143 million primarily due to higher contracted fees for technical and advisory services.

Selling and promotion expenses increased by Php163 million, or 11%, to Php1,715 million primarily due to higher marketing expenses as a result of major advertising campaigns launched on *ask PLDT* and PLDT Landline Plus in 2008 as well as an increase in commission expenses.

Asset impairment increased by Php845 million to Php888 million mainly due to the net reversal of provision for doubtful accounts in 2007 and an increase in inventory obsolescence in 2008.

Taxes and licenses decreased by Php108 million, or 12%, to Php769 million as a result of higher business-related taxes paid in 2007.

Communication, training and travel expenses increased by Php142 million, or 30%, to Php608 million due to the increase in subscriber-related mailing, courier and delivery charges, and local travel, partially offset by a net decrease in foreign and local training expenses.

Insurance and security services increased by Php48 million, or 11%, to Php487 million primarily due to higher security expense, insurance and bond premiums.

Cost of sales increased by Php56 million, or 19%, to Php356 million due to higher computer-bundled sales in relation to our DSL promotion and *WeRoam* subscriptions.

Provisions decreased by Php665 million, or 100%, to Php1 million primarily due to lower provisions for assessment in 2008. Please see *Note 25 – Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 18 for further details.

Other expenses increased by Php284 million, or 78%, to Php646 million due to higher various business and operational-related expenses.

### ***Other Income (Expenses)***

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the years ended December 31, 2008 and 2007:

	2008	2007	Change	
			Amount	%
			(in millions)	
Other Income (Expenses)				
Gains (losses) on derivative transactions – net	Php4,141	(Php1,530)	Php5,671	371
Interest income	448	296	152	51
Financing costs	(3,903)	(4,657)	754	16
Foreign exchange (losses) gains– net	(4,513)	465	(4,978)	(1,071)
Others	1,351	2,153	(802)	(37)
	<u>(Php2,476)</u>	<u>(Php3,273)</u>	<u>Php797</u>	<u>(24)</u>

Our fixed line business segment generated other expenses of Php2,476 million in 2008, a decrease of Php797 million, or 24%, from Php3,273 million in 2007. The change was due to a gain on derivative transactions of Php4,141 million relating to the gain in the mark-to-market valuation of various financial instruments and the impact of the de-designation of foreign currency swaps and option contracts beginning January 1, 2008 compared to a loss on derivative transactions of Php1,530 million in 2007 and a decrease in financing costs due to a lower debt level of PLDT, partially offset by a net foreign exchange loss of Php4,513 million on account of a loss on revaluation of net foreign currency-denominated liabilities owing to the depreciation of the Philippine peso in 2008 compared to a net foreign exchange gain of Php465 million in 2007. The de-designation exposes our profit and loss accounts to the volatility of the financial instruments' fair valuation at certain periods. Please see *Note 26 – Financial Assets and Liabilities* to the accompanying audited consolidated financial statements for further discussion.

### ***Provision for Income Tax***

Provision for income tax amounted to Php3,257 million in 2008 as compared with Php2,395 million in 2007 primarily due to higher taxable income.

### ***Net Income***

In 2008, our fixed line business segment contributed a net income of Php8,220 million, an increase of Php2,947 million, or 56%, as compared with Php5,273 million in 2007 mainly as a result of an increase in service revenues by Php715 million, lower fixed line-related expenses by Php2,158 million and a decrease in other expenses by Php797 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 2008, our ICT business generated revenues of Php10,983 million, an increase of Php661 million, or 6%, from Php10,322 million in 2007. This increase was primarily due to the continued growth of our data center and customer interaction solutions, as well as the steady revenue contribution of our knowledge processing solutions and internet and online gaming businesses.

The following table summarizes the total revenues from our ICT business for the years ended December 31, 2008 and 2007 by service segment:

	<u>2008</u>	<u>%</u>	<u>2007</u>	<u>%</u>	<u>Increase</u>	
					<u>Amount</u>	<u>%</u>
			(in millions)			
Service Revenues:						
Knowledge processing solutions	Php5,272	48	Php5,261	51	Php11	–
Customer interaction solutions	3,402	31	3,262	32	140	4
Internet and online gaming	976	9	937	9	39	4
Vitro™ data center	767	7	595	6	172	29
	<u>10,417</u>	<u>95</u>	<u>10,055</u>	<u>98</u>	<u>362</u>	<u>4</u>
Non-Service Revenues:						
Point-product sales	<u>566</u>	<u>5</u>	<u>267</u>	<u>2</u>	<u>299</u>	<u>112</u>
Total ICT Revenues	<u>Php10,983</u>	<u>100</u>	<u>Php10,322</u>	<u>100</u>	<u>Php661</u>	<u>6</u>

## ***Service Revenues***

Service revenues generated by our ICT business segment amounted to Php10,417 million in 2008, an increase of Php362 million, or 4%, as compared with Php10,055 million in 2007 primarily as a result of the continued growth of our knowledge processing solutions business and our customer interaction solutions business complemented by an increase in co-location revenues and disaster recovery revenues from our data center business. As a percentage of our total ICT revenues, service revenues decreased to 95% in 2008 from 98% in 2007.

### ***Knowledge Processing Solutions***

We provide our knowledge processing solutions primarily through the SPi Group. Knowledge processing solutions contributed revenues of Php5,272 million in 2008, an increase of Php11 million from Php5,261 million in 2007 primarily as a result of the revenues contributed by SPi's litigation and healthcare services. Knowledge processing solutions accounted for 51% and 52% of total service revenues of our ICT business in 2008 and 2007, respectively.

### ***Customer Interaction Solutions***

We provide our customer interaction solutions primarily through *ePLDT Ventus*. Revenues relating to our customer interaction solutions business increased by Php140 million, or 4%, to Php3,402 million in 2008 from Php3,262 million in 2007 primarily due to the expansion of our customer interaction solutions facilities. In total, we own and operate approximately 6,580 seats with 5,800 customer service representatives, or CSRs, in 2008 compared with approximately 6,400 seats with 5,930 CSRs in 2007. In each of the years 2008 and 2007, *ePLDT Ventus* have seven customer interaction solution sites. Customer interaction solution revenues accounted for 33% and 32% of total service revenues of our ICT business in 2008 and 2007, respectively.

### ***Internet and Online Gaming***

Revenues from our internet and online gaming businesses increased by Php39 million, or 4%, to Php976 million in 2008 from Php937 million in 2007 primarily due to the increase in Infocom's revenues from handling PLDT's DSL-related nationwide technical helpdesk operations. Our internet and online gaming business revenues accounted for 9% of total service revenues of our ICT business in each of the years 2008 and 2007.

### ***Data Center***

ePLDT operates an internet data center under the brand name *Vitro*<sup>™</sup> 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.

In 2008, our data center contributed revenues of Php767 million, an increase of Php172 million, or 29%, from Php595 million in 2007 primarily due to an increase in co-location or rental revenues and server hosting. Our data center revenues accounted for 7% and 6% of service revenues of our ICT business in 2008 and 2007, 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 2008, non-service revenues generated by our ICT business increased by Php299 million, or 112%, to Php566 million as compared with Php267 million in 2007 primarily due to higher revenues from sales of hardware and software licenses.

## Expenses

Expenses associated with our ICT business totaled Php13,267 million in 2008, an increase of Php2,262 million, or 21%, from Php11,005 million in 2007 primarily due to increases in asset impairment, compensation and employee benefits, cost of sales and repairs and maintenance, partially offset by lower professional and other contracted services, and depreciation and amortization. As a percentage of our ICT total revenues, expenses related to our ICT business were 121% and 107% in 2008 and 2007, respectively.

The following table shows the breakdown of our total ICT-related expenses for years ended December 31, 2008 and 2007 and the percentage of each expense item to the total:

	2008		2007		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
ICT Services:						
Compensation and employee benefits <sup>(1)</sup>	Php6,131	46	Php5,455	50	Php676	12
Asset impairment	2,286	17	711	6	1,575	222
Depreciation and amortization	833	6	934	8	(101)	(11)
Professional and other contracted services	747	6	1,129	10	(382)	(34)
Rent	665	5	620	6	45	7
Cost of sales	660	5	381	3	279	73
Repairs and maintenance	573	4	504	5	69	14
Communication, training and travel	573	4	523	5	50	10
Amortization of intangible assets	244	2	232	2	12	5
Selling and promotions	203	2	194	2	9	5
Taxes and licenses	98	1	94	1	4	4
Insurance and security services	61	–	49	–	12	24
Other expenses	193	2	179	2	14	8
Total	Php13,267	100	Php11,005	100	Php2,262	21

<sup>(1)</sup> Includes salaries and employee benefits, incentive plan, pension and MRP costs.

Compensation and employee benefits increased by Php676 million, or 12%, to Php6,131 million mainly due to higher accrued bonuses and employees' basic pay increase as a result of salary rate adjustments. This increase was partially offset by a decrease in ePLDT and subsidiaries' employee headcount by 271, or 2%, to 16,489 in 2008 as compared with 16,760 in 2007.

Asset impairment increased by Php1,575 million, or 222%, to Php2,286 million primarily due to ePLDT's provision for impairment on goodwill and other intangibles on account of its investment in SPi and Level Up! and the acquisition of shares from minority stockholders of Airborne Access and the acquisition of Digital Paradise. Please see *Note 11 – Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 7 for a detailed discussion.

Depreciation and amortization charges decreased by Php101 million, or 11%, to Php833 million primarily due to a decrease in the depreciable asset base of our customer interaction solutions business due to lower capital expenditures in 2008 as compared with 2007.

Professional and other contracted services decreased by Php382 million, or 34%, to Php747 million primarily due to lower consultancy fees and subcontracted services incurred by the SPi Group related to its knowledge processing solutions businesses.

Rent expenses increased by Php45 million, or 7%, to Php665 million primarily due to higher office space rentals and leased circuits incurred by our customer interaction solutions business.

Cost of sales increased by Php279 million, or 73%, to Php660 million primarily due to higher sales of software licenses and hardware products.

Repairs and maintenance expenses increased by Php69 million, or 14%, to Php573 million primarily due to higher maintenance costs for new customer interaction solution facilities.

Communication, training and travel expenses increased by Php50 million, or 10%, to Php573 million primarily due to increased bandwidth and information system charges, combined with an increase in local and foreign travel costs incurred by our customer interaction solution and knowledge processing solution businesses.

Amortization of intangible assets increased by Php12 million, or 5%, to Php244 million due to the revaluation of dollar denominated intangible assets in relation to the acquisition of Springfield by SPi in April 2007 owing to the depreciation of the Philippine peso from Php41.411 as at December 31, 2007 to Php47.647 as at December 31, 2008. Please see *Note 11 – Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 7 for further discussion.

Selling and promotion expenses increased by Php9 million, or 5%, to Php203 million mainly due to the SPi Group's higher advertising and marketing expenses.

Taxes and licenses increased by Php4 million, or 4%, to Php98 million primarily due to higher business-related taxes.

Insurance and security services increased by Php12 million, or 24%, to Php61 million primarily due to higher premium costs and an increase in the value of assets insured.

Other expenses increased by Php14 million, or 8%, to Php193 million mainly due to higher business-related costs, such as office supplies.

### ***Other Income (Expenses)***

The following table summarizes the breakdown of our total ICT-related other income (expenses) for the years ended December 31, 2008 and 2007:

	2008	2007	Change	
			Amount	%
			(in millions)	
Other Income (Expenses)				
Foreign exchange gains (losses)– net	Php93	(Php138)	Php231	167
Interest income	22	21	1	5
(Losses) gains on derivative transactions – net	(59)	138	(197)	(143)
Financing costs	(172)	(132)	(40)	(30)
Others	115	583	(468)	(80)
Total	(Php1)	Php472	(Php473)	(100)

Our ICT business segment generated other expenses of Php1 million in 2008, compared with other income of Php472 million in 2007 primarily due to the recognition of cumulative dividends and interest on ePLDT's investment in convertible securities of Stradcom International Holdings, Inc., or SIHI, in 2007 and a loss in 2008 in the mark-to-market valuation recognized by our customer interaction solutions and knowledge processing solutions businesses on forward foreign exchange contracts partially offset by gain on revaluation of net foreign currency-denominated assets due to the depreciation of the Philippine peso in 2008.



### ***Benefit from Income Tax***

Benefit from income tax decreased by Php18 million, or 15%, to Php99 million in 2008 primarily due to the corresponding deferred tax effect of the amortization of intangible assets.

### ***Net Loss***

In 2008, our ICT business segment registered a net loss of Php2,186 million as compared with Php94 million in 2007 mainly as a result of the 21% increase in ICT-related expenses which more than offset the 6% increase in total revenues generated by our ICT business in 2008, and lower benefit from income tax in 2008 as compared with 2007.

## **2007 Compared to 2006**

### **On a Consolidated Basis**

#### ***Revenues***

Our revenues for 2007 increased by Php10,015 million, or 8%, to Php137,958 million from Php127,943 million in 2006. This increase was primarily due to an increase in our service revenues primarily resulting from the continued growth of our wireless business and an increase in our ICT revenues largely due to the effects of the full-year consolidation of the financial results of SPi, CyMed and Level Up!, the acquisition of Springfield and the continued increase in our customer interaction solutions revenues, which was partially offset by a continued decrease in our fixed line revenues.

The following table shows the breakdown of our total revenues for the years ended December 31, 2007 and 2006 by business segment:

	2007	%	2006	%	Change	
					Amount	%
						(in millions)
Wireless	Php88,553	64	Php80,840	63	Php7,713	10
Fixed line	48,832	35	49,255	39	(423)	(1)
Information and communications technology	10,322	8	6,890	5	3,432	50
Inter-segment transactions	(9,749)	(7)	(9,042)	(7)	(707)	8
Total	Php137,958	100	Php127,943	100	Php10,015	8

#### ***Expenses***

Our expenses in 2007 increased by Php2,401 million, or 3%, to Php84,456 million from Php82,055 million in 2006. This increase was primarily due to higher professional and other contracted services and compensation and employee benefits partially offset by lower depreciation and amortization, and asset impairment. As a percentage of our total revenues, total expenses decreased to 61% in 2007 from 64% in 2006.

The following table shows the breakdown of our total expenses for the years ended December 31, 2007 and 2006 by business segment:

	2007	%	2006	%	Change	
					Amount	%
						(in millions)
Wireless	Php45,399	54	Php42,873	52	Php2,526	6
Fixed line	37,891	45	41,149	50	(3,258)	(8)
Information and communications technology	11,005	13	7,175	9	3,830	53
Inter-segment transactions	(9,839)	(12)	(9,142)	(11)	(697)	8
Total	Php84,456	100	Php82,055	100	Php2,401	3

### **Other Expenses**

Other expense decreased by Php3,412 million, or 93%, to Php245 million in 2007 from Php3,657 million in 2006 primarily due to an increase in foreign exchange gains as a result of the effect of revaluation of net foreign currency-denominated liabilities due to the appreciation of the Philippine peso in 2007 as compared with 2006 and lower financing cost due to the increase in accretion on financial liabilities and interest on loans and related items partially offset by a decrease in our other income primarily resulting from a recognition in our fixed line business of a net reversal of provision for onerous contract related to the ATPA with AIL in 2006 and lower loss on derivative transactions – net in 2007.

The following table shows the breakdown of our total other expenses for the years ended December 31, 2007 and 2006 by business segment:

	2007	%	2006	%	Change	
					Amount	%
			(in millions)			
Wireless	Php2,577	(1,052)	(Php1,113)	30	Php3,690	332
Fixed line	(3,273)	1,336	(2,380)	65	(893)	38
Information and communications technology	472	(193)	(64)	2	536	838
Inter-segment transactions	(21)	9	(100)	3	79	(79)
Total	(Php245)	100	(Php3,657)	100	Php3,412	(93)

### **Provision for Income Tax**

Provision for income tax increased by Php10,389 million, or 151%, to Php17,279 million in 2007 as compared with Php6,890 million in 2006 mainly due to a higher taxable income partly as a result of lower accelerated depreciation recognized in 2007, and the reversal in 2006 of a valuation allowance for deferred tax assets in relation to the likelihood that Piltel would be able to realize future benefits on these assets in 2006.

### **Net Income**

As a result, our consolidated net income in 2007 was Php35,978 million, an increase of Php637 million, or 2%, compared to Php35,341 million in 2006 on account of higher revenues and other income partly offset by higher provision for income tax. The following table shows the breakdown of our consolidated net income for the years ended December 31, 2007 and 2006 by business segment:

	2007	%	2006	%	Change	
					Amount	%
			(in millions)			
Wireless	Php30,730	85	Php30,376	86	Php354	1
Fixed line	5,273	15	5,277	15	(4)	–
Information and communications technology	(94)	–	(312)	(1)	218	(70)
Inter-segment transactions	69	–	–	–	69	100
Total	Php35,978	100	Php35,341	100	Php637	2

### **On Business Segment Basis**

#### **Wireless**

##### **Revenues**

Our wireless business segment offers cellular services as well as wireless broadband, satellite and other services.

The following table summarizes the total revenues from our wireless business for the years ended December 31, 2007 and 2006 by service segment:

	2007		2006		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Wireless Services:						
Service Revenues						
Cellular	Php82,334	93	Php75,605	94	Php6,729	9
Wireless broadband, satellite and others	4,165	5	2,778	3	1,387	50
	<u>86,499</u>	<u>98</u>	<u>78,383</u>	<u>97</u>	<u>8,116</u>	<u>10</u>
Non-Service Revenues:						
Sale of cellular handsets and SIM-packs	2,054	2	2,457	3	(403)	(16)
Total Wireless Revenues	<u>Php88,553</u>	<u>100</u>	<u>Php80,840</u>	<u>100</u>	<u>Php7,713</u>	<u>10</u>

### Service Revenues

Our wireless service revenues increased by Php8,116 million, or 10%, to Php86,499 million in 2007 as compared with Php78,383 million in 2006, mainly as a result of the growth in the cellular and wireless broadband subscriber base, an increase in inbound international traffic and inbound roaming revenues, partially offset by an increase in interconnection costs and the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar in 2007 on our dollar-linked revenues. As a percentage of our total wireless revenues, service revenues contributed 98% in 2007 as compared with 97% in 2006.

#### Cellular Service

Our cellular service revenues in 2007 amounted to Php82,334 million, an increase of Php6,729 million, or 9%, from Php75,605 million in 2006. This increase was primarily due to the combined growth of Smart's and Piltel's subscriber bases. Cellular service revenues accounted for 95% of our wireless service revenues in 2007 as compared to 96% in 2006.

The following table summarizes the key measures of our cellular business as at and for the years ended December 31, 2007 and 2006:

	2007		2006		Increase	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Cellular service revenues	Php82,334		Php75,605		Php6,729	9
By service type						
Prepaid	80,197		73,893		6,304	9
Postpaid	74,284		68,846		5,438	8
	5,913		5,047		866	17
By component						
Voice	80,197		73,893		6,304	9
Data	36,105		35,221		884	3
	44,092		38,672		5,420	14
Others <sup>(1)</sup>	2,137		1,712		425	25

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

	2007	2006	Increase	
			Amount	%
Cellular subscriber base	30,041,030	24,175,384	5,865,646	24
Prepaid	29,699,150	23,856,821	5,842,329	24
<i>Smart</i>	19,997,324	16,882,442	3,114,882	18
<i>Piltel</i>	9,701,826	6,974,379	2,727,447	39
Postpaid	341,880	318,563	23,317	7
Systemwide traffic volumes (in millions)				
Calls (in minutes)	6,355	5,667	688	12
Domestic – outbound	3,799	3,437	362	11
International	2,556	2,230	326	15
<i>Inbound</i>	2,355	2,065	290	14
<i>Outbound</i>	201	165	36	22
SMS count	227,028	238,362	(11,334)	(5)
Text messages	225,083	235,957	(10,874)	(5)
Domestic	224,818	235,734	(10,916)	(5)
<i>Bucket-Priced</i>	199,326	203,669	(4,343)	(2)
<i>Standard</i>	25,492	32,065	(6,573)	(20)
International	265	223	42	19
Value-Added Services	1,903	2,370	(467)	(20)
Financial Services	42	35	7	20

Revenues attributable to our cellular prepaid service amounted to Php74,284 million in 2007, an 8% increase over the Php68,846 million earned in 2006. Prepaid service revenues in 2007 and 2006 accounted for 93% of voice and data revenues. Revenues attributable to Smart's postpaid service amounted to Php5,913 million in 2007, a 17% increase over the Php5,047 million earned in 2006, and accounted for 7% of voice and data revenues in 2007 and 2006.

#### *Voice Services*

Cellular revenues from voice services, which include all voice traffic and voice VAS such as voice mail and international roaming, increased by Php884 million, or 3%, to Php36,105 million in 2007 from Php35,221 million in 2006 primarily due to an increase in domestic voice, international long distance and voice roaming revenues, and domestic and international inbound revenues partially offset by the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar in 2007 on our dollar-linked revenues from Php51.332 in 2006 to Php46.184 in 2007. The increase in domestic and international outbound and inbound revenues may be attributed to increased traffic mainly on account of subscriber growth. Cellular voice services accounted for 44% of cellular service revenues in 2007 as compared to 47% in 2006.

Domestic outbound and international inbound and outbound calls totaled 6,355 million minutes in 2007, an increase of 688 million, or 12%, from 5,667 million minutes in 2006. International inbound and outbound calls totaled 2,556 million minutes in 2007, an increase of 326 million, or 15%, as compared with 2,230 million minutes in 2006, mainly due to an increase in our subscriber base and strategic arrangements with telecommunication service providers in jurisdictions with a significant number of overseas Filipino workers.

#### *Data Services*

Cellular revenues from data services, which include all text messaging-related services as well as VAS, increased by Php5,420 million, or 14%, to Php44,092 million in 2007 from Php38,672 million in 2006. Cellular data services accounted for 54% of cellular service revenues in 2007 as compared to 51% in 2006.

The following table shows the breakdown of our cellular data revenues for the years ended December 31, 2007 and 2006:

	2007	2006 (in millions)	Increase (Decrease)	
			Amount	%
Text messaging				
Domestic	Php39,430	Php32,763	Php6,667	20
<i>Bucket-Priced</i>	20,141	11,054	9,087	82
<i>Standard</i>	19,289	21,709	(2,420)	(11)
International	1,835	1,886	(51)	(3)
	<u>41,265</u>	<u>34,649</u>	<u>6,616</u>	<u>19</u>
Value-added services				
Standard <sup>(1)</sup>	1,802	2,809	(1,007)	(36)
Rich Media <sup>(2)</sup>	352	287	65	23
<i>Pasa Load</i>	594	854	(260)	(30)
	<u>2,748</u>	<u>3,950</u>	<u>(1,202)</u>	<u>(30)</u>
Financial services				
<i>Smart Money</i>	75	68	7	10
Mobile Banking	4	5	(1)	(20)
	<u>79</u>	<u>73</u>	<u>6</u>	<u>8</u>
Total	<u>Php44,092</u>	<u>Php38,672</u>	<u>Php5,420</u>	<u>14</u>

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

<sup>(2)</sup> Includes MMS, Wireless Application Protocol, GPRS, etc.

Text messaging-related services contributed revenues of Php41,265 million in 2007, an increase of Php6,616 million, or 19%, compared to Php34,649 million in 2006, and accounted for 94% and 90% of the total cellular data revenues in 2007 and 2006, respectively. The increase in revenues from text messaging-related services resulted mainly from Smart's various bucket-priced text promotional offerings which more than offset the decline in our standard texting services. Text messaging revenues from the various bucket plans totaled Php20,141 million in 2007, an increase of Php9,087 million, or 82%, compared to Php11,054 million in 2006. On the other hand, standard text messaging revenues declined by Php2,420 million, or 11%, to Php19,289 million in 2007 compared to Php21,709 million in 2006.

Standard text messages totaled 25,492 million in 2007, a decrease of 6,573 million, or 20%, from 32,065 million in 2006 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in 2007 totaled 199,326 million, a decrease of 4,343 million, or 2%, as compared to 203,669 million in 2006 mainly on account of the introduction in late 2006 of low-denomination text packages with a fixed number of SMS including off-network messages. While these promotional text offerings resulted in reduced traffic for *Smart 258 Unlimited Text* service, the yield per SMS improved significantly resulting in increased text revenues.

VAS, which contributed revenues of Php2,748 million in 2007, decreased by Php1,202 million, or 30%, from Php3,950 million in 2006 primarily due to lower usage of standard services and *Pasa Load* owing to the introduction of low-denomination top-ups, partially offset by higher usage of rich media services in 2007 as compared to 2006.

#### *Subscriber Base, ARPU and Churn Rates*

In 2007, Smart and Piltel cellular subscribers totaled 30,041,030, an increase of 5,865,646, or 24%, over their combined cellular subscriber base of 24,175,384 in 2006. Prepaid subscribers accounted for 99% of our total subscriber base in 2007 and 2006. Our cellular prepaid subscriber base grew by 24% to 29,699,150 in 2007 from 23,856,821 in 2006, while our postpaid subscriber base increased by 7% to 341,880 in 2007 from 318,563 in 2006. Prepaid and postpaid subscribers reflected

net subscriber activations of 5,842,329 and 23,317, respectively, in 2007.

Our net subscriber activations for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006	Increase (Decrease)	
			Amount	%
Prepaid	5,842,329	3,728,278	2,114,051	57
Smart	3,114,882	1,738,324	1,376,558	79
Piltel	2,727,447	1,989,954	737,493	37
Postpaid	23,317	38,485	(15,168)	(39)
Total	5,865,646	3,766,763	2,098,883	56

Our quarterly net subscriber activations over the eight quarters in 2007 and 2006 are as follows:

	2007				2006			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Prepaid	1,301,154	1,615,246	1,148,283	1,777,646	486,009	1,553,570	450,553	1,238,146
Smart	880,281	1,050,678	763,257	420,666	111,987	851,326	131,486	643,525
Piltel	420,873	564,568	385,026	1,356,980	374,022	702,244	319,067	594,621
Postpaid	6,921	7,403	5,704	3,289	5,001	11,955	13,722	7,807
Total	1,308,075	1,622,649	1,153,987	1,780,935	491,010	1,565,525	464,275	1,245,953

For Smart prepaid, the average monthly churn rate for 2007 and 2006 were 3.5% and 3.1%, respectively, while the average monthly churn rate for Piltel subscribers in 2007 and 2006 were 3.5% and 3.3%, respectively.

The average monthly churn rate for Smart's postpaid subscribers for 2007 was 1.3% compared to 1.2% in 2006. 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 the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is disconnected. Within this 44-day period, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

The following table summarizes our cellular average monthly ARPUs for the years ended December 31, 2007 and 2006:

	Gross <sup>(1)</sup>		Increase (Decrease)		Net <sup>(2)</sup>		Increase (Decrease)		
	2007	2006	Amount	%	2007	2006	Amount	%	
Prepaid									
Smart		Php312	Php339	(Php27)	(8)	Php254	Php289	(Php35)	(12)
Piltel		221	226	(5)	(2)	184	194	(10)	(5)
Prepaid – Blended <sup>(3)</sup>		285	308	(23)	(7)	233	263	(30)	(11)
Postpaid – Smart		2,091	1,904	187	10	1,485	1,407	78	6
Prepaid and Postpaid Blended <sup>(4)</sup>		307	330	(23)	(7)	248	278	(30)	(11)

(1) Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, including (i) discounts, (ii) allocated content-provider costs and (iii) 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, net of (i) discounts, (ii) allocated content-provider costs and (iii) interconnection income net of interconnection expense, by the average number of subscribers in the month.

(3) The average monthly ARPU of Smart and Piltel.

(4) 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 in 2007 was Php285, a decrease of 7%, compared to Php308 in 2006. The average outbound domestic and international voice as well as the average VAS and inbound revenue per subscriber in 2007 compared to 2006, which was partly offset by an increase in the average text messaging revenue per subscriber. On a net basis, prepaid blended average monthly ARPU in 2007 was Php233, a decrease of 11%, compared to Php263 in 2006.

Gross average monthly ARPU for postpaid subscribers increased by 10% to Php2,091 while net average monthly ARPU for postpaid subscribers increased by 6% to Php1,485 in 2007 as compared to Php1,904 and Php1,407 in 2006, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php307 in 2007, a decrease of 7%, compared to Php330 in 2006. Net average monthly blended ARPU decreased by 11% to Php248 in 2007 as compared to Php278 in 2006.

Our average quarterly prepaid and postpaid ARPUs for the years ended December 31, 2007 and 2006 were as follows:

	Prepaid				Postpaid	
	Smart		Piltel		Smart	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
<b>2007</b>						
First Quarter	Php323	Php267	Php228	Php187	Php2,045	Php1,483
Second Quarter	324	265	233	198	2,141	1,526
Third Quarter	293	239	206	173	2,073	1,464
Fourth Quarter	307	244	216	177	2,105	1,467
<b>2006</b>						
First Quarter	Php356	Php294	Php245	Php207	Php1,867	Php1,386
Second Quarter	344	294	234	202	1,920	1,414
Third Quarter	323	280	213	184	1,891	1,403
Fourth Quarter	332	286	213	184	1,939	1,425

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

(2) Net quarterly ARPU is calculated by dividing gross cellular service revenues for the quarter, net of (i) discounts, (ii) allocated content-provider costs and (iii) interconnection income net of interconnection expense, by the average number of subscribers in the quarter.

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

Our revenues from wireless broadband, satellite and other services consist mainly of rentals received for the lease of Mabuhay Satellite's transponders, wireless broadband service revenues from SBI, charges for ACeS Philippines' satellite information and messaging services and service revenues generated from the mobile virtual network operations of PLDT Global's subsidiary. Gross revenues from these services for 2007 amounted to Php4,165 million, an increase of Php1,387 million, or 50%, from Php2,778 million in 2006 principally due to the growth in our wireless broadband business partially offset by lower satellite transponder rental revenues owing to lower rental charges and number of transponders being leased out and higher level of the peso appreciation in 2007.

SBI offers a number of wireless broadband services and had 301,738 subscribers in 2007 as compared to 121,867 in 2006. *Smart Bro*, the fixed wireless broadband service of Smart linked to Smart's wireless broadband-enabled base stations, allows people to connect to the internet using an outdoor aerial antenna installed in a subscriber's home. Wireless broadband revenues contributed Php2,389 million in 2007, increasing by Php1,566 million, or 190%, from Php823 million in 2006.

We also offer *PLDT WeRoam*, a wireless broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE and WiFi technologies). Principally targeted at the corporate market, this service had 13,066 subscribers in 2007 compared to 9,623 subscribers in 2006 and contributed Php142 million to our data revenues, increasing by Php66 million, or 87%, from Php76 million in 2006.

### ***Non-Service Revenues***

Our wireless non-service revenues consist of proceeds from sales of cellular handsets and cellular SIM-packs.

Our wireless non-service revenues decreased by Php403 million, or 16%, to Php2,054 million in 2007 as compared to Php2,457 million in 2006 primarily due to a lower volume of postpaid and prepaid handsets sold and a lower average revenue per cellular handset and cellular SIM-pack, partly offset by a higher volume of cellular SIM-packs sold in 2007.

### ***Expenses***

Expenses associated with our wireless business in 2007 amounted to Php45,399 million, an increase of Php2,526 million, or 6%, from Php42,873 million in 2006. A significant portion of this increase was attributable to higher depreciation and amortization, professional and other contracted services, rent, and selling and promotion expenses, partially offset by lower asset impairment expense and cost of sales. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 51% and 53% in 2007 and 2006, respectively.

Cellular business expenses accounted for 93% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for 7% of our wireless business expenses in 2007, compared with 89% and 11% in 2006, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2007 and 2006 and the percentage of each expense item to the total:

	2007		2006		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Wireless Services:						
Depreciation and amortization	Php12,202	27	Php10,752	25	Php1,450	13
Rent	8,751	19	7,887	18	864	11
Compensation and employee benefits <sup>(1)</sup>	4,608	10	5,041	12	(433)	(9)
Cost of sales	4,446	10	4,888	12	(442)	(9)
Selling and promotions	3,803	8	3,012	7	791	26
Repairs and maintenance	3,634	8	3,646	9	(12)	-
Professional and other contracted services	3,238	7	1,831	4	1,407	77
Taxes and licenses	1,348	3	1,018	2	330	32
Communication, training and travel	1,083	3	891	2	192	22
Insurance and security services	783	2	797	2	(14)	(2)
Asset impairment	563	1	2,220	5	(1,657)	(75)
Amortization of intangible assets	158	-	312	1	(154)	(49)
Other expenses	782	2	578	1	204	35
<b>Total</b>	<b>Php45,399</b>	<b>100</b>	<b>Php42,873</b>	<b>100</b>	<b>Php2,526</b>	<b>6</b>

<sup>(1)</sup> Includes salaries and employee benefits, LTIP, pension and MRP costs.

Depreciation and amortization charges increased by Php1,450 million, or 13%, to Php12,202 million in 2007 principally due to an increase in our depreciable asset base comprising mainly of transmission facilities, 2G, 3G and broadband networks, and broadband customer-deployed equipment.



Rent expenses increased by Php864 million, or 11%, to Php8,751 million on account of an increase in DFON facilities and transmission circuits leased by Smart from PLDT, as well as higher site rental expenses. In 2007, we had 5,001 GSM cell sites and 7,825 base stations, compared with 4,377 GSM cell sites and 6,099 base stations in 2006.

Compensation and employee benefits expenses decreased by Php433 million, or 9%, to Php4,608 million primarily due to lower accrued LTIP partly offset by higher accrued bonuses and employees' basic pay increase of Smart. Smart and subsidiaries' employee headcount increased by 57 to 5,363 in 2007 as compared to 5,306 in 2006. For further discussion on our LTIP, please see *Note 23 – Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 7.

Cost of sales decreased by Php442 million, or 9%, to Php4,446 million due to lower average cost of cellular handsets and cellular SIM-packs.

Selling and promotion expenses increased by Php791 million, or 26%, to Php3,803 million due to higher advertising, merchandising and commission expenses, partly offset by a decrease in printing costs of prepaid cards with the prevalence of our e-Loading service.

Repairs and maintenance expenses decreased by Php12 million to Php3,634 million mainly due to lower repairs and maintenance costs for network facilities and a decrease in fuel costs for power generation, partly offset by an increase in IT software and hardware repairs and maintenance costs, as well as higher electricity cost for cell sites.

Professional and other contracted services increased by Php1,407 million, or 77%, to Php3,238 million primarily due to higher expenses for consultancy, contracted and technical services, market research and advisory fees. We changed the estimated useful life of a prepaid management fee to effectively end in 2007. Please see *Note 22 – Related Party Transactions* to the accompanying audited consolidated financial statements in Item 7 for further discussion.

Taxes and licenses increased by Php330 million, or 32%, to Php1,348 million primarily due to higher non-creditable input tax and the payment of previously disputed Philippine NTC licenses and fees, partly offset by lower business-related taxes and licenses.

Communication, training and travel expenses increased by Php192 million, or 22%, to Php1,083 million mainly due to higher mailing and courier charges, travel and training expenses.

Insurance and security services decreased by Php14 million, or 2%, to Php783 million primarily due to the decrease in site security expenses and lower charges on insurance contracts.

Asset impairment decreased by Php1,657 million, or 75%, to Php563 million due to the asset impairment charge recognized in 2006 in relation to the reduction in value of Mabuhay Satellite's Agila 2 satellite due to its difficulty in generating cash flows, given that the satellite was nearing its end-of-life and other events affecting its business and lower level of impairment charge for subscriber accounts receivables.

Amortization of intangible assets decreased by Php154 million, or 49%, to Php158 million mainly due to intangible assets relating to technology application and customer list arising from the acquisition of Wolfpac which was fully amortized by November 2006.

Other expenses increased by Php204 million, or 35%, to Php782 million primarily due to higher various business and operational-related expenses.

### ***Other Income (Expenses)***

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2007 and 2006:

	2007	2006	Change	
			Amount	%
			(in millions)	
Other Income (Expenses)				
Foreign exchange gains – net	Php2,649	Php1,722	Php927	54
Interest income	1,186	1,197	(11)	(1)
Gains on derivative transactions – net	278	39	239	613
Financing costs	(2,299)	(4,658)	2,359	(51)
Others	763	587	176	30
Total	<u>Php2,577</u>	<u>(Php1,113)</u>	<u>Php3,690</u>	<u>332</u>

Our wireless business segment generated other income of Php2,577 million in 2007, an increase of Php3,690 million, or 332%, from other expenses of Php1,113 million in 2006 primarily resulting from an increase in foreign exchange gains due to the effect of revaluation of net foreign currency-denominated liabilities as a result of the higher level of appreciation of the weighted average exchange rate of the peso to the U.S. dollar in 2007 as compared to 2006, a decrease in net financing costs on account of lower accretion on financial liabilities due to the settlement of Piltel's debt in 2006 and lower dividend on convertible preferred stock that is subject to mandatory redemption due to lower level of outstanding convertible preferred stock as compared to 2006, partly offset by lower capitalized interest.

### ***Provision for Income Tax***

Provision for income tax increased by Php8,523 million, or 132%, to Php15,001 million in 2007 from Php6,478 million in 2006. In 2007, the effective tax rate for our wireless business was 33% as compared to 18% in 2006 mainly due to the recognition of deferred tax assets of Piltel in 2006 and higher taxable income in 2007.

### ***Net Income***

Our wireless business segment recorded a net income of Php30,730 million in 2007, an increase of Php354 million, or 1%, over Php30,376 million registered in 2006 on account of higher cellular revenues, partially offset by higher provision for income taxes and expenses.

### **Fixed Line**

#### ***Revenues***

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Total fixed line revenues generated from our fixed line business in 2007 totaled Php48,832 million, a decrease of Php423 million, or 1%, from Php49,255 million in 2006.

The following table summarizes the total revenues from our fixed line business for the years ended December 31, 2007 and 2006 by service segment:

	2007	%	2006	%	Increase (Decrease)	
					Amount	%
(in millions)						
Fixed Line Services:						
Service Revenues						
Local exchange	Php16,205	33	Php16,965	35	(Php760)	(4)
International long distance	8,674	18	9,933	20	(1,259)	(13)
National long distance	6,338	13	6,921	14	(583)	(8)
Data and other network	15,921	32	13,725	28	2,196	16
Miscellaneous	1,413	3	1,632	3	(219)	(13)
	48,551	99	49,176	100	(625)	(1)
Non-Service Revenues:						
Sale of computers, cellular handsets and SIM-packs	281	1	79	-	202	256
Total Fixed Line Revenues	Php48,832	100	Php49,255	100	(Php423)	(1)

### Service Revenues

#### Local Exchange Service

The following table summarizes key measures of our local exchange service business as at and for the years ended December 31, 2007 and 2006:

	2007	2006	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php16,205	Php16,965	(Php760)	(4)
Number of fixed line subscribers	1,724,702	1,776,647	(51,945)	(3)
Postpaid	1,479,647	1,450,331	29,316	2
Prepaid	245,055	326,316	(81,261)	(25)
Number of fixed line employees	8,080	8,711	(631)	(7)
Number of fixed line subscribers per employee	213	204	9	4

Revenues from our local exchange service decreased by Php760 million, or 4%, to Php16,205 million in 2007 from Php16,965 million in 2006. The decrease was primarily due to the appreciation of the Philippine peso against the U.S. dollar which required us to make downward adjustments in our monthly local service rates pursuant to the currency exchange rate adjustment mechanism authorized by the NTC and the decrease in prepaid subscribers, partially offset by the increase in postpaid billed lines. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 33% in 2007 as compared to 35% in 2006.

As at December 31, 2007, there were 1,479,647 postpaid and 245,055 prepaid fixed line subscribers, which accounted for approximately 86% and 14%, respectively, of our total fixed line subscribers.

### International Long Distance Service

The following table shows our fixed line international long distance service business for the years ended December 31, 2007 and 2006:

	2007	2006	Increase (Decrease)	
			Amount	%
Total international long distance service revenues (in millions)	Php8,674	Php9,933	(Php1,259)	(13)
Inbound	7,127	8,378	(1,251)	(15)
Outbound	1,547	1,555	(8)	(1)
International call volumes (in million minutes, except call ratio)	2,280	2,177	103	5
Inbound	2,007	1,984	23	1
Outbound	273	193	80	41
Inbound-outbound call ratio	7.4:1	10.3:1	-	-

Our total international long distance service revenues decreased by Php1,259 million, or 13%, to Php8,674 million in 2007 from Php9,933 million in 2006 primarily due to the appreciation of the Philippine peso and a decrease in average termination rates for inbound calls, which were partially offset by an increase in inbound and outbound call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 18% in 2007 from 20% in 2006.

Our revenues from inbound international long distance service decreased by Php1,251 million, or 15%, to Php7,127 million owing to the appreciation of the Philippine peso to the U.S. dollar coupled with a decrease in average termination rate per minute due to the change in call mix with more traffic terminating to cellular operators where the net revenue retained by us is lower. These decreasing effects were partially offset by a slight increase in inbound traffic volume by 23 million minutes to 2,007 million minutes in 2007. The appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.900 in 2007 from Php51.165 in 2006 contributed to the decrease in our inbound international long distance revenues in peso terms, since settlement charges for inbound calls are billed in U.S. dollars or in special drawing rights, an established method of settlement among international telecommunications carriers using values based on a basket of foreign currencies that are translated into pesos at the time of billing.

Our revenues from outbound international long distance service decreased by Php8 million, or 1%, to Php1,547 million in 2007 primarily due to a decline in average revenue per minute as a result of a lower average collection rate with the introduction of low-rate services such as *PLDT ID-DSL* and *Budget Card*, and the higher level of the appreciation of Philippine peso in 2007, which more than offset the increase in outbound international call volumes in 2007.

### National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2007 and 2006:

	2007	2006	Decrease	
			Amount	%
Total national long distance service revenues (in millions)	Php6,338	Php6,921	(Php583)	(8)
National long distance call volumes (in million minutes)	2,183	2,251	(68)	(3)

Our national long distance service revenues decreased by Php583 million, or 8%, to Php6,338 million in 2007 from Php6,921 million in 2006 primarily due to a decrease in call volumes coupled with

a lower average revenue per minute in 2007 in relation to our various bundled promotions. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 13% in 2007 and 14% in 2006.

#### *Data and Other Network Services*

Our data and other network service revenues include charges for leased lines, IP-based, packet-based and switched-based services. These services are used for domestic and international communications such as private networking, broadband and narrowband internet-based data communications, and packet-based communication.

The following table shows information of our data and other network service revenues for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Data and other network service revenues (in millions)	Php15,921	Php13,725	Php2,196	16
Number of <i>DSL</i> broadband subscribers	264,291	133,159	131,132	98
Number of <i>PLDT Vibe</i> narrowband subscribers	230,995	297,250	(66,255)	(22)

In 2007, our data and other network services posted revenues of Php15,921 million, an increase of Php2,196 million, or 16%, from Php13,725 million in 2006 primarily due to increases in leased lines, IP-based and packet-based data services, particularly Diginet and DFON rental, and *PLDT DSL* mitigated by lower *PLDT Vibe* services. The percentage contribution of this service segment to our fixed line service revenues increased to 33% in 2007 from 28% in 2006.

*DSL* contributed revenues of Php3,880 million in 2007, an increase of Php748 million, or 24%, from Php3,132 million in 2006 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 plans as part of promotions. *DSL* reached 264,291 subscribers in 2007 compared with 133,159 subscribers in 2006.

*PLDT Vibe* revenues decreased by Php128 million, or 33%, to Php259 million in 2007 from Php387 million in 2006 primarily due to lower number of plan subscribers as well as the declining usage of *Vibe* prepaid. *PLDT Vibe* subscribers decreased to 230,995 in 2007 from 297,250 in 2006. The declining number of *Vibe* plans and regular monthly users for *Vibe* prepaid may be attributed to the migration from *Vibe* dial-up to *DSL* which is now priced more competitively.

Diginet, our domestic private leased line service, has been providing Smart's increasing fiber optic and leased line data requirements. Diginet revenues increased by Php478 million, or 7%, to Php7,291 million in 2007 as compared to Php6,813 million in 2006 mainly due to Smart's DFON rental of Php5,565 million and Php4,940 million in 2007 and 2006, respectively.

#### *Miscellaneous*

Miscellaneous service revenues are derived mostly from directory advertising and facilities management and rental fees. In 2007, these revenues decreased by Php219 million, or 13%, to Php1,413 million from Php1,632 million in 2006 mainly due to a decline in facilities management fees and rental income owing to lower co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of years 2007 and 2006.

## Non-Service Revenues

Non-service revenues increased by Php202 million, or 256%, to Php281 million in 2007 from Php79 million in 2006 primarily due to an increase in subscriptions for our DSL service that is bundled with computers and thus resulted in higher computer sales.

## Expenses

Expenses related to our fixed line business totaled Php37,891 million in 2007, a decrease of Php3,258 million, or 8%, as compared to Php41,149 million in 2006. The decrease was primarily due to lower depreciation and amortization, partially offset by higher professional and other contracted services, provisions, rent, repairs and maintenance, and taxes and licenses.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2007 and 2006 and the percentage of each expense item to the total:

	2007		2006		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Fixed Line Services:						
Depreciation and amortization	Php15,477	41	Php20,406	50	(Php4,929)	(24)
Compensation and employee benefits <sup>(1)</sup>	10,411	27	10,298	25	113	1
Repairs and maintenance	3,772	10	3,553	9	219	6
Rent	1,799	5	1,579	4	220	14
Professional and other contracted services	1,727	5	1,082	3	645	60
Selling and promotions	1,552	4	1,733	4	(181)	(10)
Taxes and licenses	877	2	659	2	218	33
Provisions	666	2	38	–	628	1,653
Communication, training and travel	466	1	507	1	(41)	(8)
Insurance and security services	439	1	498	1	(59)	(12)
Cost of sales	300	1	162	–	138	85
Asset impairment	43	–	54	–	(11)	(20)
Other expenses	362	1	580	1	(218)	(38)
Total	Php37,891	100	Php41,149	100	(Php3,258)	(8)

<sup>(1)</sup> Includes salaries and employee benefits, incentive plan, pension and MRP costs.

Depreciation and amortization charges decreased by Php4,929 million, or 24%, to Php15,477 million due to higher depreciation charges recognized by PLDT in 2006 on certain properties and equipment affected by our NGN roll-out in 2006. In contrast, our NGN roll-out progressed at a significantly slower pace in 2007 and thereby resulted in a lower level of our depreciation and amortization charges in 2007. In 2007, we recognized additional depreciation of Php734 million relating to Piltel's equipment that were also affected by our continuing network upgrade and expansion.

Compensation and employee benefits expenses increased by Php113 million, or 1%, to Php10,411 million primarily due to an increase in pension benefits and cost associated with our MRP and the effect of collective bargaining agreement-related increases in salaries and employee benefits, partially offset by the lower LTIP costs. Over the past years, PLDT has been implementing its MRP in line with the challenges being faced by the fixed line business as significant changes in technology, increasing competition and shifting market preferences to cellular use have reshaped the future of our fixed line business. Total MRP costs in 2007 and 2006 amounted to Php564 million and Php414 million, respectively. For further discussion on our LTIP, please see *Note 23 – Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 7.

Repairs and maintenance expenses increased by Php219 million, or 6%, to Php3,772 million primarily due to higher maintenance costs of central office and telecommunications equipment and domestic cable and wire facilities as more operating and maintenance-related restorations were incurred

in 2007 as compared to 2006.

Rent expenses increased by Php220 million, or 14%, to Php1,799 million due to the settlement of pole rental charges with Visayan Electric Company, Inc. and an increase in international leased circuit charges, partially offset by a decrease in rent expenses from a lease of transponders from Mabuhay Satellite.

Professional and other contracted services increased by Php645 million, or 60%, to Php1,727 million primarily due to PLDT's higher consultancy service fees coupled with higher contracted fees for technical and advisory services.

Selling and promotion expenses decreased by Php181 million, or 10%, to Php1,552 million primarily as a result of a collective effort in efficient media spending in relation to various products and services, partially offset by higher public relations expenses.

Taxes and licenses increased by Php218 million, or 33%, to Php877 million mainly due to the payment of previously disputed business-related taxes.

Provisions increased by Php628 million to Php666 million primarily due to higher provision for assessments in 2007. Please see *Note 25 – Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 7 for further details.

Communication, training and travel expenses decreased by Php41 million, or 8%, to Php466 million due to the decrease in mailing, courier and delivery charges, and a net decrease in foreign and local travel, and training expenses.

Insurance and security services decreased by Php59 million, or 12%, to Php439 million primarily due to lower premiums on property all-risk, industrial all-risk and industrial fire insurance.

Cost of sales increased by Php138 million, or 85%, to Php300 million due to higher computer-bundled sales in relation to our *DSL* promotion and *WeRoam* subscriptions.

Asset impairment decreased by Php11 million, or 20%, to Php43 million mainly due to lower impairment charge on uncollectible receivables.

Other expenses decreased by Php218 million, or 38%, to Php362 million due to lower various business and operational-related expenses.

### ***Other Income (Expenses)***

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the years ended December 31, 2007 and 2006:

	2007	2006	Change	
			Amount	%
	(in millions)			
Other Income (Expenses)				
Foreign exchange gains – net	Php465	Php354	Php111	31
Interest income	296	441	(145)	(33)
Losses on derivative transactions – net	(1,530)	(1,893)	363	19
Financing costs	(4,657)	(6,173)	1,516	25
Others	2,153	4,891	(2,738)	(56)
Total	(Php3,273)	(Php2,380)	Php893	38

Our fixed line business segment generated other expenses of Php3,273 million in 2008, an increase of Php893 million, or 38%, from Php2,380 million in 2007 primarily due to the decrease in

other income largely due to the net reversal of a provision for onerous contract related to the change in Air Time Purchase Agreement with AIL in 2006 and lower loss on derivative transactions – net in 2007. This was partially offset by lower financing cost due to lower interest on loans and related items.

### ***Provision for Income Tax***

Provision for income tax amounted to Php2,395 million in 2007 as compared to Php449 million in 2006 primarily due to higher taxable income as a result of lower accelerated depreciation recognized in 2007.

### ***Net Income***

In 2007, our fixed line business segment contributed a net income of Php5,273 million, a decrease of Php4 million as compared to Php5,277 million in 2006 mainly as a result of a decline in our total revenues augmented by higher provision for income tax, partially offset by an 8% decrease in fixed line-related expenses, particularly depreciation and amortization.

## **Information and Communications Technology**

### ***Revenues***

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

In 2007, our ICT business generated revenues of Php10,322 million, an increase of Php3,432 million, or 50%, from Php6,890 million in 2006. This increase was largely due to the effect of the full-year consolidation of the financial results of the SPi Group in 2007 and the continued increase of our customer interaction solution revenues services.

The following table summarizes the total revenues from our ICT business for the years ended December 31, 2007 and 2006 by service segment:

	<u>2007</u>	<u>%</u>	<u>2006</u>	<u>%</u>	<u>Increase (Decrease)</u>	
			(in millions)		<u>Amount</u>	<u>%</u>
Service Revenues:						
Knowledge processing solutions	Php5,261	51	Php2,374	34	Php2,887	122
Customer interaction solutions	3,262	31	2,624	38	638	24
Internet and online gaming	937	9	796	12	141	18
Vitro™ Data center	595	6	543	8	52	10
	<u>10,055</u>	<u>97</u>	<u>6,337</u>	<u>92</u>	<u>3,718</u>	<u>59</u>
Non-Service Revenues:						
Point Product Sales	267	3	553	8	(286)	(52)
Total ICT Revenues	<u>Php10,322</u>	<u>100</u>	<u>Php6,890</u>	<u>100</u>	<u>Php3,432</u>	<u>50</u>

### ***Service Revenues***

Service revenues generated by our ICT business segment amounted to Php10,055 million in 2007, an increase of Php3,718 million, or 59%, as compared to Php6,337 million in 2006 primarily as a result of the consolidation of financial results of the SPi Group and Level Up!, acquisition of Springfield and the continued growth of our customer interaction solution business.



### *Knowledge Processing Solutions*

We provide our knowledge processing solutions primarily through the SPi Group, which ePLDT acquired on July 11, 2006. Knowledge processing solutions contributed revenues of Php5,261 million in 2007, an increase of Php2,887 million, or 122%, from Php2,374 million in 2006 primarily as a result of the effects of the full-year consolidation of the financial results of the SPi Group and accounted for 52% and 37% of total service revenues of our ICT business in 2007 and 2006, respectively.

### *Customer Interaction Solutions*

We provide our customer interaction solutions primarily through *ePLDT Ventus*. Revenues relating to our customer interaction solution business increased by Php638 million, or 24%, to Php3,262 million in 2007 from Php2,624 million in 2006 primarily due to the expansion of our customer interaction solution facilities. In total, we own and operate approximately 6,400 seats with 5,930 customer service representatives, or CSRs, in 2007 compared to approximately 5,600 seats with 5,130 CSRs in 2006. In each of the years 2006 and 2007, *ePLDT Ventus* had seven customer interaction solution sites.

Customer interaction solution revenues accounted for 33% and 41% of total service revenues of our ICT business in 2007 and 2006, respectively.

### *Internet and Online Gaming*

Revenues from our internet and online gaming businesses increased by Php141 million, or 18%, to Php937 million in 2007 from Php796 million in 2006 primarily due to the effects of the full-year consolidation of the financial results of Level Up! which resulted in an increase in revenues by Php49 million, and an increase in Infocom's revenues by Php63 million due to additional revenues from our customer service outsourcing. Our internet and online gaming business revenues accounted for 9% and 13% of total service revenues of our ICT business in 2007 and 2006, respectively.

### *Data Center*

In 2007, *Vitro*<sup>TM</sup> contributed revenues of Php595 million, an increase of Php52 million, or 10%, from Php543 million in 2006 primarily due to an increase in co-location revenues and server hosting. *Vitro*<sup>TM</sup> revenues accounted for 6% and 9% of service revenues of our ICT business in 2007 and 2006, 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 2007, non-service revenues generated by our ICT business decreased by Php286 million, or 52%, to Php267 million as compared to Php553 million in 2006 primarily due to lower revenues from sales of hardware and software licenses.

### ***Expenses***

Expenses associated with our ICT business totaled Php11,005 million in 2007, an increase of Php3,830 million, or 53%, from Php7,175 million in 2006 primarily due to the effects of the full-year consolidation of the financial results of the SPi Group and Level Up! in 2007 and the acquisition of Springfield which contributed to an increase in compensation and employee benefits, professional and other contracted services, communication, training and travel, and depreciation and amortization and asset impairment, partially offset by lower cost of sales. As a percentage of our ICT total revenues, expenses related to our ICT business were 107% and 104% for 2007 and 2006, respectively.

The following table shows the breakdown of our total ICT-related expenses for the years ended December 31, 2007 and 2006 and the percentage of each expense item to the total:

	2007		2006		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
ICT Services:						
Compensation and employee benefits <sup>(1)</sup>	Php5,455	50	Php3,021	42	Php2,434	81
Professional and other contracted services	1,129	10	739	10	390	53
Depreciation and amortization	934	8	711	10	223	31
Asset impairment	711	6	492	7	219	45
Rent	620	6	444	6	176	40
Communication, training and travel	523	5	276	4	247	89
Repairs and maintenance	504	5	368	5	136	37
Cost of sales	381	3	575	8	(194)	(34)
Amortization of intangible assets	232	2	138	2	94	68
Selling and promotions	194	2	194	3	–	–
Taxes and licenses	94	1	70	1	24	34
Insurance and security services	49	–	35	–	14	40
Other expenses	179	2	112	2	67	60
Total	Php11,005	100	Php7,175	100	Php3,830	53

<sup>(1)</sup> Includes salaries and employee benefits, incentive plan, pension and MRP costs.

Compensation and employee benefits increased by Php2,434 million, or 81%, to Php5,455 million largely due to the full-year consolidation of the SPi Group in 2007 and the expansion of our customer interaction solution business.

Professional and other contracted services increased by Php390 million, or 53%, to Php1,129 million primarily due to higher consultancy fees and subcontracted services incurred by the SPi Group related to its knowledge processing solutions business.

Depreciation and amortization charges increased by Php223 million, or 31%, to Php934 million primarily due to an increase in the depreciable asset base resulting from the expansion of our customer interaction solution business and the full-year consolidation of the SPi Group in 2007.

Asset impairment increased by Php219 million, or 45%, to Php711 million mainly due to ePLDT's provision for impairment of goodwill mainly from an investment by SPi and Level Up! amounting to Php1,162 million, partially offset by a provision for impairment on notes receivable amounting to Php346 million in 2006 and the reversal of impairment loss of Php616 million related to our investment in convertible securities of Stradcom International Holdings, Inc., or SIHI, in 2007. Please see *Note 13 – Investment in Debt Securities* to the accompanying audited consolidated financial statements in Item 7 for further discussion of our investment in Stradcom.

Rent expenses increased by Php176 million, or 40%, to Php620 million primarily due to higher office space rentals and leased circuits from other carriers incurred by our customer interaction solution business, the SPi Group and Level Up!.

Communication, training and travel expenses increased by Php247 million, or 89%, to Php523 million primarily due to the increased cost of phone lines, bandwidth and information system charges, coupled with the increase in local and foreign travel costs, mailing and courier charges, and freight and hauling charges incurred by our customer interaction solution and knowledge processing solution businesses.

Repairs and maintenance expenses increased by Php136 million, or 37%, to Php504 million primarily due to higher maintenance costs for new customer interaction solution facilities and higher

electricity charges for *Vitro™* and the full-year consolidation of the SPi Group and Level Up!.

Cost of sales decreased by Php194 million, or 34%, to Php381 million primarily due to lower sales of software licenses and hardware products.

Amortization of intangible assets increased by Php94 million, or 68%, to Php232 million in relation to the acquisition of the SPi Group and Level Up!, as well as the acquisition of Springfield by SPi in April 2007. Please see *Note 11 – Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 7 for further discussion.

Taxes and licenses increased by Php24 million, or 34%, to Php94 million primarily due to the full-year consolidation of the SPi Group in 2007 and higher business-related taxes.

Insurance and security services increased by Php14 million, or 40%, to Php49 million primarily due to higher premium costs and an increase in the value of assets insured.

Other expenses increased by Php67 million, or 60%, to Php179 million mainly due to higher business-related costs, such as office supplies.

### ***Other Income (Expenses)***

The following table summarizes the breakdown of our total ICT-related other income (expenses) for the years ended December 31, 2007 and 2006:

	2007	2006	Change	
			Amount	%
			(in millions)	
Other Income (Expenses)				
Gains on derivative transactions – net	Php138	Php3	Php135	4,500
Interest income	21	16	5	31
Financing costs	(132)	(23)	(109)	(474)
Foreign exchange losses – net	(138)	(109)	(29)	(27)
Others	583	49	534	1,090
Total	Php472	(Php64)	Php536	838

Our ICT business segment generated other income of Php472 million in 2007, compared to other expense of Php64 million incurred in 2006 primarily due to the recognition of cumulative dividends and interest on ePLDT's investment in convertible securities of SIHI and higher gains on derivative transactions, partially offset by higher interest on loans and related items and higher loss on revaluation of net foreign currency assets due to the appreciation of the Philippine peso against the U.S. dollar from Php49.045 as at December 31, 2006 to Php41.411 as at December 31, 2007.

### ***Benefit from Income Tax***

Benefit from income tax increased by Php80 million, or 216%, to Php117 million in 2007 primarily due to the corresponding deferred tax effect of the amortization of intangible assets in relation to the acquisition of the SPi Group and Level Up!.

### ***Net Loss***

In 2007, our ICT business segment registered a net loss of Php94 million, an improvement of 70% from a net loss of Php312 million in 2006 mainly as a result of the 50% increase in ICT-related revenues mainly from the full-year consolidation of the SPi Group and Level Up!, acquisition of Springfield and higher benefit from income tax in 2007, partly offset by the 53% increase in ICT-related expenses mainly from the full-year consolidation of the SPi Group.

## **Plans and Prospects**

We are the largest and most diversified telecommunications company in the Philippines. We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to further expand our subscriber base and fortify our industry position. We also plan to maximize revenue opportunities by offering more value-driven products and services, while bundling and cross-selling voice and data offerings across our various platforms of fixed line, wireless and ICT. In addition, we intend to align the deployment of our fixed line and wireless platforms and technologies such that these initiatives dovetail with our delivery of services. We will continue to consider value-accretive investments in related businesses such as those in the global outsourcing and off-shoring industry.

For 2009, we expect that cash from operations should enable us to increase the level of our capital expenditures for the continued expansion and upgrading of our network infrastructure. We expect to make additional investments in our core facilities to maximize existing technologies and increase capacity. Our 2009 budget for consolidated capital expenditures is approximately Php27,000 million, of which approximately Php15,000 million is budgeted to be spent by Smart, approximately Php10,000 million is budgeted to be spent by PLDT and the balance represents the budgeted capital spending of our other subsidiaries. The acquisition of a stake in Meralco constitutes a strategic investment for us that could lead to significant opportunities for operational and business synergies and result in new revenue streams and cost savings for both organizations. The PLDT Group and Meralco have a number of compatible network business infrastructure elements, such as fiber optic backbones, power pole network and business offices, most of which can be optimized to generate cost savings for both entities. Backroom assets in IT and data management can potentially also be pooled, consolidated and maximized such that both companies benefit from cost savings and utilize each other's strengths. Other areas for possible collaboration are in easements and rights of way, bill statement printing and enveloping, general procurement and advertising efforts.

## Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2008, 2007 and 2006 as well as our consolidated capitalization and other selected financial data as at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(in millions)		
<b>Cash Flows</b>			
Net cash provided by operating activities	Php78,302	Php77,418	Php69,211
Net cash used in investing activities	17,014	31,319	35,790
<i>Capital expenditures</i>	25,203	24,824	20,674
Net cash used in financing activities	45,464	44,819	45,900
Net increase (decrease) in cash and cash equivalents	16,237	577	(13,189)
	<u>2008</u>	<u>2007</u>	
	(in millions)		
<b>Capitalization</b>			
Interest-bearing financial liabilities:			
Long-term financial liabilities:			
Long-term debt	Php58,899	Php53,372	
Obligations under finance lease	11	15	
	<u>58,910</u>	<u>53,387</u>	
Current portion of interest-bearing financial liabilities:			
Notes payable	553	493	
Long-term debt maturing within one year	14,459	6,775	
Obligations under finance lease maturing within one year	59	481	
Preferred stock subject to mandatory redemption	9	1,015	
	<u>15,080</u>	<u>8,764</u>	
Total interest-bearing financial liabilities	73,990	62,151	
Total equity	<u>106,969</u>	<u>112,511</u>	
	<u>Php180,959</u>	<u>Php174,662</u>	
<b>Other Selected Financial Data</b>			
Total assets	Php252,558	Php240,158	
Property, plant and equipment – net	160,326	159,414	
Cash and cash equivalents	33,684	17,447	
Short-term investments	6,670	13,415	

As at December 31, 2008, our consolidated cash and cash equivalents and short-term investments totaled Php40,354 million. Principal sources of consolidated cash and cash equivalents in 2008 were cash flows from operating activities amounting to Php78,302 million and drawings from PLDT's and Smart's debt facilities aggregating Php17,912 million. These funds were used principally for dividend payments of Php37,124 million, capital outlays of Php25,203 million, total debt principal payments of Php14,053 million, share buyback of Php5,281 million and interest payments of Php5,167 million.

Principal sources of consolidated cash and cash equivalents in 2007 and 2006 were cash flows from operations amounting to Php77,418 million and Php69,211 million, respectively; drawings from long-term and short-term credit facilities totaling Php7,647 million and Php502 million, respectively, in 2007, and Php9,724 million and Php211 million, respectively, in 2006; and equity funds raised through the issuance of capital stock amounting to Php76 in 2007 and Php66 million in 2006. These funds were used principally for dividend payments of Php28,470 million and capital outlays of Php24,824 million, payments of long-term and short-term debt totaling Php18,258 million and interest payments of Php5,891 million in 2007; and capital outlays of Php20,674 million, payments of long-term and short-term debt totaling Php29,366 million and interest payments of Php7,528 million in 2006.

### *Operating Activities*

Our consolidated net cash flows from operating activities in 2008 increased by Php884 million, or 1%, to Php78,302 million from Php77,418 million in 2007 primarily due to lower level of settlement

of various current liabilities as a result of variations in billing and invoicing timelines of our suppliers. Net cash flows from operating activities in 2007 increased by Php8,207 million, or 12%, from Php69,211 million in 2006.

A growing portion of our consolidated cash flow from operating activities is generated by our wireless service business, which accounted for 61%, 60% and 58% of our total revenues in 2008, 2007 and 2006, respectively. Revenues from our fixed line and information and communications technology services accounted for 32% and 7%, respectively, of our total service revenues in 2008, 33% and 7%, respectively, in 2007 and 37% and 5%, respectively, in 2006.

Cash flows from operating activities of our wireless business amounted to Php42,780 million in 2008, a decrease of Php6,836 million, or 14%, compared with Php49,616 million in 2007. The decrease in our wireless business segment's cash flows from operating activities was a result of higher prepayment of leased circuits and higher income tax paid partially offset by a lower settlement of various payables in 2008. Likewise, cash flows from operating activities of our ICT business decreased by Php777 million, or 31%, to Php1,752 million in 2008 compared with Php2,529 million in 2007 mainly due to higher settlement of various liabilities. Cash flows from operating activities of our fixed line business increased by Php8,520 million, or 34%, to Php33,794 million in 2008 compared with Php25,274 million in 2007. This increase was primarily due to lower settlement of various liabilities and increase in advance payments received from various leased circuit contracts in 2008. The overall increase in our cash flows from operating activities was primarily due to lower level of settlement of various current liabilities offset an increase in accounts receivables and higher income taxes paid in 2008.

Cash flows from operating activities of our wireless business amounted to Php49,616 million in 2007, an increase of Php12,331 million, or 33%, compared to Php37,285 million in 2006. The increase in our wireless business segment's cash flows from operating activities was primarily due to the decrease in our working capital requirements in our wireless business in 2007 owing to the settlement of various payables in 2006. However, cash flows from operating activities of our fixed line business decreased by Php5,151 million, or 17%, to Php25,274 million in 2007 compared to Php30,425 million in 2006. This decrease was primarily due to higher working capital requirements in our fixed line business in 2007 due to PLDT's contribution to its pension plan and the settlement of our LTIP in 2006 and lower collection of receivables. The overall increase in our cash flows from operating activities was primarily due to a decrease in working capital requirements with lower level of settlements of various current liabilities, partially offset by higher billings of accounts receivable.

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 December 31, 2008 and 2007.

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 2008, 2007 and 2006, dividend payments received by PLDT from Smart amounted to Php24,200 million, Php26,927 million and Php20,600 million, respectively.

In 2007, Piltel paid cash dividends to various preferred shareholders in the aggregate amount of Php2,943 million, of which Php2,930 million was paid to PLDT. In 2008, Piltel paid cash dividends to shareholders of its common stock amounting to Php5,061 million, of which Php4,664 million was paid to Smart.

### ***Investing Activities***

Net cash used in investing activities amounted to Php17,014 million in 2008, a decrease of Php14,305 million, or 46%, from Php31,319 million in 2007. The decrease resulted from a combination of: (a) higher proceeds from the maturity of short-term investments of Php12,898 million; (b) redemption by SIHI of convertible securities of SIHI of Php2,676 million (see *Note 13—Investment in Debt Securities* to the accompanying audited consolidated financial statements in Item 7); (c) lower purchase of subsidiaries and purchase of investments in associates by Php1,534 million; and (d) higher proceeds from disposal of property, plant and equipment of Php62 million, which were partially offset by higher investment in debt securities of Php3,193 million and an increase in capital expenditures of Php379 million in 2008.

Net cash used in investing activities amounted to Php31,319 million in 2007, a decrease of Php4,471 million, or 12%, from Php35,790 million in 2006 primarily a net result of a decrease in investments of Php8,602 million due to the acquisitions of 100% equity interests in SPi and CyMed in 2006, partially offset by an increase in capital expenditures of Php4,150 million in 2007. Payments for purchase of investments in 2007 amounted to Php2,288 million, of which Php1,687 million and Php601 million were paid for the acquisitions of a 100% equity interest in Springfield and a 30% equity interest in Blue Ocean Wireless, or BOW, respectively.

Our consolidated capital expenditures in 2008 totaled Php25,203 million, an increase of Php379 million, or 2%, from Php24,824 million in 2007 primarily due to Smart's higher capital spending. Smart's capital spending of Php17,091 million in 2008 was used primarily to further upgrade its core, access and transmission network facilities and expand its wireless broadband facilities. PLDT's capital spending of Php7,209 million was principally used to finance the expansion and upgrade of its submarine cable facilities, fixed line data and IP-based network services. ePLDT and its subsidiaries' capital spending of Php824 million was primarily used to fund the continued expansion of its customer interaction solution facilities. The balance represented other subsidiaries' capital spending.

Our consolidated capital expenditures in 2007 totaled Php24,824 million, an increase of Php4,150 million, or 20%, from Php20,674 million in 2006 primarily due to Smart's and PLDT's higher capital spending. Smart's capital spending of Php14,179 million in 2007 was used primarily to further upgrade its core, access and transmission network facilities, expand its wireless broadband facilities and develop IT platforms for new businesses. PLDT's capital spending of Php9,912 million was principally used to finance the expansion and upgrade of its submarine cable facilities, fixed line data and IP-based network services. ePLDT and its subsidiaries' capital spending of Php678 million was primarily used to fund its continued customer interaction solution expansion. 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, which may or may not be significant. See Item 1. "Description of Business — Recent Developments" for a discussion of recent acquisitions and investments.

### ***Financing Activities***

On a consolidated basis, we used net cash of Php45,464 million for financing activities in 2008, compared to Php44,819 million in 2007 and Php45,900 million in 2006. The net cash used in financing activities was mainly utilized for dividend payments distributed to PLDT common and preferred stockholders, debt repayments and interest payments and buyback of PLDT's common stock in 2008. In 2007, net cash used in financing activities was mainly utilized for dividend payments distributed to PLDT common and preferred stockholders, debt repayments and interest payments.

## ***Debt Financing***

Additions to our consolidated debt in 2008 and 2007 totaled Php17,912 million and Php7,647 million, respectively, mainly from Smart's and PLDT's drawings related to the financing of our network expansion projects and capital expenditure requirements, respectively. Payments in respect of principal and interest of our total debt amounted to Php14,053 million and Php5,167 million, respectively, in 2008 and Php18,258 million and Php5,891 million, respectively, in 2007.

Our long-term debt increased by Php13,211 million, or 22%, to Php73,358 million in 2008, largely due to drawings from our term loan facilities and the depreciation of the Philippine peso in 2008 as compared with the peso appreciation in 2007 resulting in 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 14% and 36% to Php38,823 million and Php33,898 million, respectively, while the debt level of Mabuhay Satellite decreased by 47% to Php610 million in 2008 as compared with the levels as at December 31, 2007.

Our long-term debt decreased by Php19,806 million, or 25%, to Php60,147 million in 2007, largely due to debt amortizations and prepayments in line with our efforts to reduce our overall debt level, and also due to the appreciation of the Philippine peso resulting in lower peso equivalents of our foreign currency-denominated debt. The debt levels of PLDT, Smart and Mabuhay decreased by 35%, 1% and 45% to Php33,975 million, Php24,995 million and Php1,145 million, respectively, in 2007 compared to the levels in 2006.

On January 15, 2008, PLDT signed a US\$100 million term loan facility agreement with Norddeutsche Landesbank Girozentrale Singapore Branch to be used for the capital expenditure requirements of PLDT. US\$50 million each was drawn from the facility on March 27 and April 10, 2008. The outstanding balance of this loan as at December 31, 2008 amounted to US\$90 million, or Php4,288 million, which is payable over five years in 10 equal semi-annual installments with final repayment due on March 27, 2013.

On July 15, 2008, PLDT signed a loan agreement amounting to US\$50 million with Bank of the Philippine Islands to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on July 21, 2008 in the amount of US\$15 million and the balance of US\$35 million was drawn on September 30, 2008. The outstanding balance of this loan as at December 31, 2008 amounted to US\$50 million, or Php2,382 million, which is payable in 17 equal quarterly installments starting July 21, 2009 with final repayment due on July 22, 2013.

On October 21, 2008, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company for an amount of Php2,500 million to finance capital expenditures. The facility is a 5-year term loan payable in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown, with final repayment on November 13, 2013. The facility was drawn on November 13, 2008 for the full amount of Php2,500 million, which remained outstanding as at December 31, 2008.

On November 21, 2008, PLDT signed a loan agreement with Land Bank of the Philippines amounting to Php2,400 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 12, 2008 in the amount of Php500 million, which remained outstanding as at December 31, 2008. The loan is payable over five years in ten equal semi-annual installments with final repayment due on December 12, 2013. As at December 31, 2008, the undrawn balance of the loan was Php1,900 million.



On November 25, 2008, Smart signed a US\$22 million 5-year term loan facility to finance the supply, installation, commissioning, and testing of Wireless Code Division Multiple Access/High Speed Packet Access project with Nordea Bank AB as Original Lender, Arranger and Facility Agent. On December 10, 2008, Nordea Bank AB assigned its rights and obligations to the Swedish Export Credit Corporation (AB Svensk Exportkredit) supported by EKN. The initial drawdown under this facility was made on December 15, 2008 in the amount of US\$8 million. The facility is payable in ten equal semi-annual installments with final repayment due on December 10, 2013. As at December 31, 2008, the undrawn balance of this facility was US\$14 million.

On November 26, 2008, PLDT signed a loan agreement with Union Bank of the Philippines amounting to Php3,000 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 22, 2008 in the amount of Php500 million, which remained outstanding as at December 31, 2008. The loan is payable over five years in nine equal semi-annual installments with final repayment due on December 23, 2013. As at December 31, 2008, the undrawn balance of the loan was Php2,500 million.

On November 27, 2008, Smart signed a US\$50 million 5-year term loan facility to finance the Phase 10 GSM equipment and service contracts with Finnish Export Credit, Plc. The loan is payable in ten equal semi-annual installments with final repayment date on the fifth anniversary of the first drawdown. As at December 31, 2008, no amounts have been drawn under the facility.

On November 28, 2008, PLDT signed a loan agreement with Philippine National Bank amounting to Php2,000 million to be used for its capital expenditure requirements in connection with PLDT's service improvement and expansion programs. The initial drawdown under this loan was made on December 19, 2008 in the amount of Php500 million, which remained outstanding as at December 31, 2008. The loan is payable over five years in 17 equal quarterly amortizations with final repayment due on December 19, 2013. As at December 31, 2008, the undrawn balance of the loan was Php1,500 million, which was subsequently drawn on January 30, 2009, February 27, 2009 and March 13, 2009 in three equal Php500 million tranches.

On December 12, 2008, Smart issued Php5,000 million 5-year fixed rate corporate notes with an interest rate of 8.4346%. Funds raised from the issuance of the notes will be used primarily for Smart's capital expenditures for network upgrade and expansion. The amount of Php5,000 million remained outstanding as at December 31, 2008. The facility has annual amortizations equivalent to 1% of the principal amount with the balance of 96% payable on December 12, 2013.

On February 20, 2009, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated February 18, 2009, comprising of Series A 5-year notes amounting to Php2,390 million, Series B 7-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,510 million. The interest rates on the Series A notes were fixed at 7.4269%, Series B notes at 8.3692%, and Series C notes at 9.1038%. Proceeds from the facility are expected to be used to finance capital expenditures of PLDT.

On March 6, 2009, PLDT signed a loan agreement with Banco de Oro Unibank, Inc. amounting to Php2,500 million, which remained undrawn as at March 31, 2009, to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan is payable after five years from drawdown date.

Approximately Php41,991 million principal amount of our consolidated outstanding long-term debt as at December 31, 2008 is scheduled to mature over the period from 2009 to 2012. Of this amount, Php23,491 million is attributable to PLDT, Php17,863 million to Smart and the remainder to Mabuhay Satellite and ePLDT.

For a complete discussion of our long-term debt, see *Note 18 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying audited consolidated financial statements in Item 7.

### ***Debt Covenants***

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

Please see *Note 18 – Interest-bearing Financial Liabilities – Debt Covenants* to the accompanying audited consolidated financial statements in Item 7 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.

Cash dividend payments in 2008 amounted to Php37,124 million compared with Php28,470 million paid to common and preferred shareholders in 2007. 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).

As a result of our strong cash flows and reduced debt levels, we had increased our regular cash dividend payout ratio to 70% of our 2007 earnings per share from 60% in 2006. With respect to our 2007 earnings, in addition to the Php60 per share dividend declared on August 7, 2007, we declared on March 4, 2008 a regular cash dividend of Php68 per share and a special cash dividend of Php56 per share, in the aggregate representing close to a 100% payout of our 2007 earnings per share. As for our 2006 earnings, further to our regular cash dividend payout, we also paid special cash dividends, which effectively increased our dividend payout ratio to 85% of our 2006 earnings per share.

PLDT raised Php7 million and Php73 million from the exercise by certain officers and executives of stock options in 2008 and 2007, 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 and Php3 million in 2008 and 2007 from this source, respectively.

As part of our goal to maximize returns to our shareholders, in 2008, we obtained board of directors' approval on a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. As at December 31, 2008, we acquired a total of 1,972,290 shares of PLDT's common stock at a weighted average price of Php2,521 per share for a total consideration of Php4,973 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 year ended December 31, 2008. Please refer to *Note 17 – Equity* to the accompanying audited consolidated financial statements in Item 7 for further details.

## ***Credit Ratings***

None of our existing indebtedness contains provisions under which credit rating downgrades would trigger a default, changes in applicable interest rates or other similar terms and conditions.

PLDT's current credit ratings are as follows:

<b><u>Rating Agency</u></b>	<b><u>Credit Rating</u></b>	<b><u>Outlook</u></b>
Standard & Poor's Ratings Services, or Standard & Poor's	Foreign Currency Rating	BB+ Stable
Moody's Investor Service, or Moody's	Foreign Currency Senior Unsecured Debt Rating Local Currency Corporate Family Rating	Ba2 Positive Baa2 Positive
Fitch Ratings, or Fitch	Long-term Foreign Currency Rating Long-term Local Currency Rating Long-term Foreign Currency Issuer Default Rating, or IDR Long-term Local Currency Issuer Default Rating National Long-term Rating	BB+ Stable BB+ Stable BB+ Stable BBB Stable AAA(ph1) Stable

On October 7, 2008, Fitch affirmed our long-term foreign and local currency issuer default ratings at "BB+" and "BBB", respectively. Also, our national long-term rating has been affirmed at "AAA(ph1)", as well as our global bonds and senior notes at "BB+". The outlook is stable. The ratings reflect our preeminent position in the Philippine telecommunications industry, with diversified and integrated operations in fixed line, cellular, wired and wireless broadband services, internet services, as well as our notable presence in the call center and business process outsourcing industry. The stable outlook recognizes our ability to sustain our leading market position and maintain our strong financial profile, despite increasing shareholder distributions.

On March 19, 2008 Moody's affirmed our local currency Baa2 rating and changed its outlook from stable to positive at the same time affirming our foreign currency bond Ba2 rating with a positive outlook. The rating action reflects our ability to achieve ongoing revenue growth and fund high levels of capital expenditures internally, as well as the ability to increase dividend payments to our shareholders. On January 28, 2008, Moody's affirmed our foreign currency senior unsecured debt rating from stable to positive following the change in the outlook of the Philippines Ba3 country ceiling for foreign currency bonds to positive from stable.

## ***Off-Balance Sheet Arrangement***

There are no off-balance sheet 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 Php7 million and Php73 million from the exercise by certain officers and executives of stock options in 2008 and 2007, 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 and Php3 million in 2008 and 2007, respectively.

As part of our goal to maximize returns to our shareholders, in 2008, we obtained board of directors' approval on a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. As at December 31, 2008, we acquired and paid a total of 1,972,290 shares of PLDT's common stock at a weighted

average price of Php2,521 per share for a total consideration of Php4,973 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 year ended December 31, 2008. Please refer to *Note 17 – Equity* to the accompanying audited consolidated financial statements in Item 7 for further details.

Cash dividend payments in 2008 amounted to Php37,124 million compared with Php28,470 million paid to common and preferred shareholders in 2007. In 2008, there were 187.5 million PLDT common shares outstanding compared with 188.7 million in 2007.

## **Contractual Obligations and Commercial Commitments**

### *Contractual Obligations*

For a discussion of our contractual obligations, see *Note 24 – Contractual Obligations and Commercial Commitments* to the accompanying audited consolidated financial statements in Item 7.

### *Commercial Commitments*

As at December 31, 2008, our outstanding commercial commitments, in the form of letters of credit, amounted to Php1,634 million. 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 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 24 – Contractual Obligations and Commercial Commitments* and *Note 26 – Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 7.

## **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 2008, inflation rate has increased; we expect this trend to have an adverse impact on our operations moving forward. The average inflation rate in the Philippines in 2008 was 9.3% compared with 2.8% in 2007.

## **Risks and Uncertainties**

### *Risks Relating to Us*

*We face competition from well-established telecommunications operators and may face competition from new entrants that may adversely affect our business, results of operations, financial condition and prospects*

The Philippine government has liberalized the Philippine telecommunications industry and opened the Philippine telecommunications market to new entrants. Including the PLDT Group, there are eight major local exchange carriers, 11 international gateway facility providers and seven cellular service providers in the country. Many new entrants into the Philippine telecommunications market

have entered into strategic alliances with foreign telecommunications companies, which provide them access to technological and funding support as well as service innovations and marketing strategies. Consequently, we are facing increasing competition in major segments of the telecommunications industry, particularly data and other network services segments. There can be no assurance that the number of providers of telecommunication services will not further increase or that competition for telecommunications customers will not lead our cellular and fixed line subscribers to switch to other operators or lead us to increase our marketing expenditures or reduce our rates, resulting in a reduction in our profitability.

Competition in the cellular telecommunications industry in the Philippines is based primarily on factors such as network coverage, quality of service and price. Recently, competition has increased as operators sought to develop and maintain market share and to attract new subscribers. Our principal cellular competitors, Globe Telecom, Inc., or Globe, and Digital Telecommunications Philippines, Inc., or Digitel, have introduced aggressive marketing campaigns and promotions. In addition, the government may allocate additional frequencies and award additional cellular telecommunications licenses in the future which could lead to increased competition.

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

There can be no assurance that incurring additional marketing expenses for these promotions and responding to rate pressures and the potential loss of customers will not have a material adverse effect on our financial performance.

*The cellular telecommunications industry may not continue to grow*

Majority of our total revenues is currently derived from cellular services. As a result, we depend on the continued development and growth of the cellular telecommunications industry. The cellular penetration rate in the Philippines is estimated to have reached over 75%. The growth of the cellular communications market depends on many factors beyond our control, including the continued introduction of new and enhanced cellular devices, the price levels of cellular handsets, consumer preferences and amount of disposable income of existing and potential subscribers. Any economic, technological or other developments resulting in a reduction in demand for cellular services may harm our business.

*Rapid changes in telecommunications technology may adversely affect the economics of our existing businesses and the value of our assets, increase our required capital expenditures and create new competition*

The telecommunications sector has been characterized recently by rapid technological changes. There can be no assurance that these developments will not result in competition from providers of new services or the need to make substantial capital expenditures to upgrade our facilities. Furthermore, the NTC has issued to Smart and our competitors licenses covering 3G cellular services, and we have incurred significant expenses in the roll out of these services. We are also continuing to upgrade to a next generation, all-IP network and rolling out a wireless broadband network in order to expand our capability to provide broadband services. These projects require and will continue to require over the next few years significant capital expenditures.

Our future success will depend, in part, on our ability to anticipate or adapt to such changes and to offer services that meet customer demands on a competitive and timely basis. We may be unable to obtain new technologies on a timely basis or on satisfactory terms or implement them in an appropriate or effective manner. Future development of new technologies, services or standards could require significant changes to our business model, could negatively impact our existing businesses and could necessitate new investments. In addition, new products and services may be expensive to develop and may result in increased competition. Such strategic initiatives and technological developments could require us to incur significant additional capital expenditures. There can be no assurance that we would be able to adopt and successfully implement new technologies. In addition, there can be no assurance on how emerging and future technological changes will affect our operations or the competitiveness of our services.

*Our results of operations and our financial position could be materially and adversely affected if the Philippine peso significantly fluctuates against the U.S. dollar*

A substantial portion of our indebtedness, related interest expense and our capital expenditures and a portion of our expenses are denominated in U.S. dollars and other foreign currencies, but a significant portion of our revenues is denominated in Philippine pesos. As at December 31, 2008, 78% of our total consolidated indebtedness was foreign currency-denominated of which approximately 45% was unhedged.

A depreciation of the Philippine peso against the U.S. dollar increases the amount of our U.S. dollar-denominated debt obligations and operating and interest expenses in peso terms. In the event that the Philippine peso depreciates against the U.S. dollar, we may be unable to generate enough funds through operations and other means to offset the resulting increase in our obligations in peso terms. Moreover, a depreciation of the Philippine peso against the U.S. dollar may result in our recognition of significant foreign exchange losses, which could materially adversely affect our results of operations. For example, the Philippine peso depreciated against the U.S. dollar from Php41.411 as at December 31, 2007 to Php47.647 as at December 31, 2008, as a result of which, we recognized in 2008 foreign exchange losses in the amount of Php6,170 million, representing a change of Php14,160 million from a foreign exchange gain of Php7,990 million recognized in 2007. A depreciation of the Philippine peso could also cause us not to be in compliance with the financial covenants imposed by our lenders under certain loan agreements and other indebtedness. Further, fluctuations in the Philippine peso value and of interest rates impact the mark-to-market gains/losses of certain of our financial debt instruments which were designated as non-hedged items.

On the other hand, approximately 34.5% of PLDT Group's consolidated service revenues are either denominated in U.S. dollars or are linked to the U.S. dollar. In this respect, an appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar for the year ended December 31, 2008 decreases our revenues, and consequently, our cash flow from operations in Philippine peso terms.

The Philippine peso has been subject to significant fluctuations in recent years. From 2003 to 2005, the Philippine peso depreciated from a high of Php49.336 on May 20, 2002 to a low of Php56.443 on October 14, 2004. While the peso appreciated in 2005, 2006 and 2007, it depreciated in 2008 to a low of Php49.984 and closed at Php47.647 as at December 31, 2008, and there can be no assurance that the peso will not further depreciate and be subjected to significant fluctuations going forward due to a range of factors, including:

- political and economic developments affecting the Philippines;
- global economic and financial trends;
- the volatility of regional currencies, particularly the Japanese yen;

- any interest rate increases by the Federal Reserve Bank of the United States;
- higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations; and
- foreign exchange traders including banks covering their short U.S. dollar positions.

*Our results of operations have been, and may continue to be, adversely affected by competition in, and the emergence of new services which may put additional pressure on, our traditional international and national long distance services*

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

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

- increased competition from other domestic and international telecommunications providers;
- advances in technology;
- alternative providers offering internet telephony, also known as Voice over Internet Protocol, or VoIP, and broadband capacity; and
- unauthorized traffic termination and bypass routings by international simple resale operators.

The continued increase in cellular penetration in the Philippines and the prevalence of SMS has negatively impacted our national long distance business in recent years. There can be no assurance that we will be able to generate new revenue streams that may fully offset the declines in our traditional fixed line long distance businesses or that these declines will not materially and adversely affect our financial performance.

Net settlement payments between PLDT and other foreign telecommunications carriers for origination and termination of international call traffic between the Philippines and other countries have been our predominant source of foreign currency revenues. However, in U.S. dollar terms, these payments have been declining in recent years. A continued decline in our foreign currency revenues could increase our exposure to risks from possible future declines in the value of the Philippine peso against the U.S. dollar. We cannot assure you that we will be able to achieve adequate increases in our other revenues to make up for any adverse impact of a further decline in our net settlement payments.

*We may not be successful in our acquisitions of and investments in other companies and businesses, and may therefore be unable to implement fully our business strategy*

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

- our ability to identify suitable opportunities for investment or acquisition;
- our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;
- the extent to which we are able to exercise control over the acquired company;

- the economic, business or other strategic objectives and goals of the acquired company compared to those of the PLDT Group; and
- our ability to successfully integrate the acquired company or business with our existing businesses.

Any of our contemplated acquisitions and investments may not be consummated due to reasons or factors beyond our control. Even if any contemplated acquisitions and investments are consummated, we may not be able to realize any or all of the anticipated benefits of such acquisitions and investments. Moreover, if we are unsuccessful in our contemplated acquisitions and investments, we may not be able to implement fully our business strategy to maintain or grow certain of our businesses.

*Our debt instruments contain restrictive covenants which require us to maintain certain financial tests and our indebtedness could impair our ability to fulfill our financial obligations, service our other debt and carry out new financings*

As at December 31, 2008, we had consolidated total indebtedness of Php73,911 million (US\$1,551 million), and a consolidated ratio of debt to equity (total debt on a consolidated basis divided by total equity attributable to equity holders of PLDT) of 0.70x. Our existing debt instruments contain covenants which, among other things, require PLDT to maintain certain financial ratios calculated on the basis of PFRS on a consolidated and non-consolidated basis and limit our ability to incur indebtedness. For a description of some of these covenants, see Item 5. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Financing Activities — Debt Covenants.”

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

The principal factors that can negatively affect our ability to comply with the financial ratios and other financial tests under our debt instruments are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and our consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries and increases in our interest expenses. Since as at December 31, 2008, approximately 78% of our total consolidated debts was denominated in foreign currencies, principally in U.S. dollars, many of these financial ratios and other tests are expected to be negatively affected by any weakening of the peso.

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

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



*Our subsidiaries could be limited in their ability to pay dividends to us due to internal cash requirements and their creditors having superior claims to their assets and cash flows, which could materially and adversely affect our financial condition*

A growing portion of our total revenues and cash flow from operations is derived from our subsidiaries, particularly Smart. Smart and some of our other subsidiaries have significant internal cash requirements for debt service, capital expenditures and expenses and so may be financially unable to pay any dividends to PLDT. Although Smart has been making dividend payments to PLDT since December 2002, there can be no assurance that PLDT will continue to receive dividends or other distributions, or otherwise be able to derive liquidity from Smart or any other subsidiary or investee in the future.

Creditors of our subsidiaries will have prior claims to our subsidiaries' assets and cash flows. We and our creditors will effectively be subordinated to the existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries, except that we may be recognized as a creditor on loans we have made to subsidiaries. If we are recognized as a creditor of a subsidiary, our claim will still be subordinated to any indebtedness secured by assets of the subsidiary and any indebtedness of the subsidiary otherwise deemed senior to the indebtedness we hold.

We may have difficulty meeting debt payment obligations if we do not continue to receive cash dividends from our subsidiaries and our financial condition could be materially and adversely affected as a result.

*Our businesses require substantial capital investment, which we may not be able to finance*

Our projects under development and the continued maintenance and improvement of our networks and services, including Smart's projects, networks and services, require substantial ongoing capital investment. Our consolidated capital expenditures in 2008 and 2007 totaled Php25,203 million and Php24,824 million, respectively. Our 2009 budget for consolidated capital expenditures is approximately Php27,000 million, of which approximately Php10,000 million is budgeted to be spent by PLDT and approximately Php15,000 million is budgeted to be spent by Smart; the balance represents the budgeted capital spending of our other subsidiaries. PLDT's capital spending is intended principally to finance the continued build-out and upgrade of its data and IP infrastructures and for its fixed line data services and the maintenance of its network. Smart's capital spending is focused on expanding and upgrading its transmission network facilities to meet increased demand for cellular and broadband services.

Future strategic initiatives could require us to incur significant additional capital expenditures. We may be required to finance a portion of our future capital expenditures from external financing sources, which have not yet been fully arranged. There can be no assurance that financing for new projects will be available on terms acceptable to us or at all. If we cannot complete our development programs and other capital projects, our growth, results of operations and financial condition could be materially and adversely affected.

*Our businesses depend on the reliability of our network infrastructure, which is subject to physical, technological and other risks*

We depend to a significant degree on an uninterrupted operation of our network to provide our services. We also depend on robust information technology systems to enable us to conduct our operations. The development and operation of telecommunications networks are subject to physical, technological and other risks, which may cause interruptions in service or reduced capacity for customers. These risks include:

- physical damage;
- power loss;
- capacity limitation;
- cable theft;
- software defects; and
- breaches of security by computer viruses, break-ins or otherwise.

The occurrence of any of these risks could have a material and adverse effect on our ability to provide services to customers. While we are undertaking initiatives to prevent and/or mitigate the occurrence of said risks, including the preparation of a disaster recovery plan that aims to allow restoration of service at the soonest possible time from occurrence of an incident, there can be no assurance that these risks will not occur or that our initiatives will be effective should such risks occur.

*A significant number of PLDT's shares are held by three shareholders, which may not act in the interests of other shareholders or stakeholders in PLDT*

The First Pacific Group has beneficial ownership of approximately 26.37% in PLDT's outstanding common stock as at February 28, 2009. This is the largest block of PLDT's common stock that is directly or indirectly under common ownership.

Pursuant to publicly available filings made with the PSE, as at February 28, 2009, NTT Communications and NTT DoCoMo together beneficially owned approximately 21% of the outstanding shares of PLDT's common stock. First Pacific and certain of its affiliates, or the FP Parties, NTT Communications, NTT DoCoMo and PLDT entered into a Cooperation Agreement, dated January 31, 2006, pursuant to which, among other things, certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999 and the Shareholders Agreement dated September 28, 1999, or the Strategic Agreement, and the Shareholders Agreement dated March 24, 2000, or the Shareholders Agreement, were extended to NTT DoCoMo. See Item 11. "Security Ownership of Certain Beneficial Owners, Directors and Officers" for further details regarding the shareholdings of NTT Communications and NTT DoCoMo in PLDT. As a result of the Cooperation Agreement, NTT Communications and NTT DoCoMo, in coordination with each other, have contractual veto rights over a number of major decisions and transactions that PLDT could make or enter into, including:

- capital expenditures in excess of US\$50 million;
- any investments, if the aggregate amount of all investments for the previous 12 months is greater than US\$25 million in the case of all investments to any existing investees and US\$100 million in the case of all investments to any new or existing investees, determined on a rolling monthly basis;
- any investments in a specific investee, if the cumulative value of all investments made by us in that investee is greater than US\$10 million in the case of an existing investee and US\$50 million in the case of a new investee;
- issuance of common stock or stock that is convertible into common stock;
- new business activities other than those we currently engage in; and
- merger or consolidation.

Moreover, as a result of the Shareholders Agreement, the Cooperation Agreement and their respective stockholdings, the FP Parties, NTT Communications and/or NTT DoCoMo are able to influence our actions and corporate governance, including:

- elections of PLDT's directors; and
- approval of major corporate actions, which require the vote of common stockholders.

Additionally, pursuant to amendments effected by the Cooperation Agreement to the Strategic Agreement and the Shareholders Agreement, upon NTT Communications and NTT DoCoMo and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DoCoMo has additional rights under the Strategic Agreement and Shareholders Agreement, including that:

- NTT DoCoMo is entitled to nominate one additional NTT DoCoMo nominee to the board of directors of each of PLDT and Smart;
- PLDT must consult NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DoCoMo, or which NTT DoCoMo has announced publicly an intention to carry on;
- PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and
- PLDT must first consult with NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

The FP Parties and/or NTT Communications and/or NTT DoCoMo may exercise their respective influence over these decisions and transactions in a manner that could be contrary to the interests of other shareholders or stakeholders in PLDT.

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

If First Pacific Group or NTT Communications sell all or a portion of their equity interest in PLDT, in certain circumstances, such sale may give rise to an obligation for PLDT to make an offer to purchase its outstanding debt under its US\$250 million 11.375% notes due 2012. As at December 31, 2008, Php7,584 million in principal amount of PLDT's indebtedness is directly subject to a redemption upon any change in the major shareholding of PLDT or to an offer to purchase requirement. In such event, if PLDT fails to complete an offer to purchase the affected debts, all of its debt could become immediately due and payable as a result of various cross-default and acceleration provisions.

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

In order to diversify the ownership base of public utilities, the Philippine Public Telecommunications Policy Act, R.A. 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchanges representing at least 30% of its

aggregate common shares within a period of five years from (a) the date the law became effective or (b) the entity's first start of commercial operations, whichever date is later. As the timeframe has lapsed without Smart having conducted a public offering of its shares, the Philippine Congress may revoke the franchise of Smart for its failure to comply with the requirement under R.A. 7925 on the public offering of its shares. A *quo warranto* case may also be filed against Smart by the Office of the Solicitor General of the Philippines for the revocation of the franchise of Smart on the ground of violation of R.A. 7925.

Smart maintains the position that it has not violated the provision in its franchise to make a public offering of its shares within a certain period, since it believes such provision is merely directory. Further, Smart believes that the policy underlying the requirement for telecommunications entities to conduct a public offering should be deemed to have been achieved when PLDT acquired a 100% equity interest in Smart in 2000, since PLDT was then and continues to be a publicly listed company. In September 2004, Senate Bill No. 1675 was filed seeking to declare that a telecommunication entity shall be deemed to have complied with the requirement of making a public offering of its shares if two-thirds of its outstanding voting stock are owned and controlled directly or indirectly, by a listed company. However, there can be no assurance that such bill will be enacted or that Philippine Congress will not revoke the franchise of Smart or the Office of Solicitor General of the Philippines will not initiate a *quo warranto* proceeding against Smart for the revocation of its franchise for failure to comply with the provision under R.A. 7925 on the public offering of shares.

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

We operate our business under franchises, each of which is subject to amendment, termination or repeal by the Philippine Congress. Additionally, PLDT operates pursuant to various provisional authorities and certificates of public convenience and necessity, or CPCNs, which were granted by the NTC and expire between now and 2028. For a description of our licenses, see Item 1. "Description of Business – Licenses and Regulation." Some of PLDT's CPCNs and provisional authorities have already expired. However, PLDT filed applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC's decisions on these extensions. Because PLDT filed the applications for extension on a timely basis, we expect that these extensions will be granted. However, there can be no assurance that the NTC will grant these extensions. Smart also operates its cellular, international long distance, national long distance and global mobile personal communications via satellite services as well as international private leased circuits pursuant to CPCNs, which will expire upon the expiration of its franchise. Smart's franchise is due to expire on March 27, 2017, 25 years after the date on which its current franchise was granted.

The NTC also regulates the rates we are permitted to charge for services that have not yet been deregulated, such as local exchange services. There can be no assurance that the NTC will not impose additional obligations on us that could lead to the revocation of our licenses if not adhered to and/or reduction in our total revenues or profitability. In addition, the NTC could adopt changes to the regulations governing our interconnection with other telecommunications companies or the rates and terms upon which we provide services to our customers that could have a material and adverse effect on our results of operations.

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

There are also various bills pending in the Philippine Congress which propose to impose a franchise tax on telecommunication companies and to tax telecommunications services, among them, the imposition of a tax on mobile phone companies on all text entries to text games; the imposition of a

Php0.50 specific tax on each SMS to be borne by the cellular phone companies; the imposition of a 10% ad valorem tax on all cellular phone calls using 3G; the prohibition on telecommunications companies from imposing fees and/or charges on text messages between subscribers of the same telecommunications company and providing for free text messages until the prepaid amount has been fully used up; and the imposition of an additional Php0.10 tax on text messaging charges. In addition, there is a pending bill which seeks to impose on telecommunications companies a 20% tax on the gross receipts from text messaging services for a period of five years, where the proceeds of such tax will be used to fund educational projects. See Item 1. “Description of Business — Licenses and Regulations – – Material effects of regulation on our business”. If any of these bills are enacted into law, such legislation would have a material and adverse impact on our results of operations and financial condition. There can be no assurance that we would be able to impose additional charges or fees to compensate for the imposition of such taxes or charges, or for the loss of fees and/or charges.

*The NTC may implement proposed changes in existing regulations and introduce new regulations which may result in increased competition and may have negative implications for our revenues and profitability*

On June 16, 2000, the NTC issued Memorandum Circular No. 13-6-2000 proposing that cellular operators, including Smart and Piltel, be required, among other things:

- to bill their subscribers for cellular calls on a six-second pulse basis instead of the current per minute basis;
- not to bill calls directed to recorded voice messages; and
- to extend the expiration date of prepaid cards from the current two months to two years.

Along with the other Philippine cellular operators, Smart filed a complaint for the nullification of this memorandum circular before the regional trial court, or RTC, of Quezon City and sought for the issuance of a preliminary injunction while proceedings are ongoing. The RTC issued the preliminary injunction, which restrained the implementation of the memorandum circular. The complaint of the Philippine cellular operators is being heard by the RTC of Quezon City.

In December 2005, the NTC issued a consultative document on the development of competition policy framework for the information communications sector. The consultative paper contains 11 questions which cover the following key areas:

- a review of market trends deemed to impinge on current and future state of competition in the sector;
- an exploration of major policies that may change the balance of market power, hence the nature and degree of competition;
- an assessment of the quality of current regulation, identifying major handicaps of the NTC; and
- a discussion of the urgent tasks for the NTC to effectively govern a dynamic and complex industry.

The NTC invited public comment from industry stakeholders and other interested parties in relation to the issues raised in the paper. On January 31, 2006, we submitted a comprehensive response to the consultative paper. On August 24, 2006, the NTC issued another consultative document specifically focusing on its proposal to impose asymmetric regulations on carriers with significant market power, or SMP, including a discussion on its proposed roadmap for implementing such SMP obligations. On October 23, 2006, we submitted our response to the second consultative paper to the NTC.

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

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

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

In addition, in 2008, the NTC proposed implementing guidelines on developing reference access offers, which are statements of the prices, terms and conditions under which a telecommunications carrier proposes to provide access to its network or facilities to another such carrier or value-added service provider.

There can be no assurance that the NTC will not impose changes to the current regulatory framework which may lead to increased competition. Any such changes may have an adverse effect on our business, results of operations and prospects.

*If we are unable to install and maintain telecommunications facilities and equipment in a timely manner, we may not be able to maintain our current market share and the quality of our services, which may have negative implications for our revenue and profitability*

Our business requires the regular installation of new, and the maintenance of existing, telecommunications transmission and other facilities and equipment, which are being undertaken. The installation and maintenance of these facilities and equipment are subject to risks and uncertainties relating to:

- shortages of equipment, materials and labor;
- work stoppages and labor disputes;
- interruptions resulting from inclement weather and other natural disasters;
- unforeseen engineering, environmental and geological problems; and
- unanticipated cost increases.

Any of these factors could give rise to delays or cost overruns in the installation of new facilities or equipment or could prevent us from properly maintaining the equipment used in our networks, and hence could affect our ability to maintain existing services and roll out new services, etc., which could have a material and adverse effect on our results of operations and financial condition.

*Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could adversely impact investor confidence and the market price of our common shares and ADSs*

Effective internal controls over financial reporting are necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. If we are unable to provide reasonable assurance with respect to our financial reports and effectively prevent fraud, our reputation and results of operations could be harmed.

We are required to comply with various Philippine and U.S. laws and regulations on internal controls. For example, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with the Annual Report on Form 20-F for the fiscal year ended December 31, 2006, we have been required to include a report by our management on our internal control over financial reporting in our Annual Reports on Form 20-F that contains an assessment by our management of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must express an opinion on our internal control over financial reporting based on their audit.

Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal control over financial reporting, including through a failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations and there could be a material adverse effect on the market prices of our common shares and ADSs.

### ***Risks Relating to the Philippines***

*PLDT's business may be affected by political or social or economic instability in the Philippines*

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

For example, the Philippines have experienced various street protests and violent civil unrest, including coup d'état attempts against the administration of President Arroyo.

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

The fiscal deficit position of the Philippine government and the ongoing political uncertainty have resulted in increased concerns about the political and economic stability of the country. There can be no assurance that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies conducive to sustained economic growth or which do not impact adversely on the current regulatory environment for telecommunications or other companies.

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

The Philippine government has, in the past, instituted restrictions on the conversion of the peso into foreign currency and the use of foreign exchange received by Philippine companies to pay foreign currency-denominated obligations. The Monetary Board of the Bangko Sentral ng Pilipinas, or BSP,

has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, to:

- suspend temporarily or restrict sales of foreign exchange;
- require licensing of foreign exchange transactions; or
- require the delivery of foreign exchange to the BSP or its designee banks.

There can be no assurance that foreign exchange controls will not be imposed in the future. If imposed, these restrictions could materially and adversely affect our ability to obtain foreign currency to service our foreign currency obligations.

*The occurrence of natural catastrophes may materially disrupt our operations*

The Philippines has experienced a number of major natural catastrophes over the years including typhoons, volcanic eruptions and earthquakes that may materially disrupt and adversely affect our business operations. The earthquake that hit Taiwan in December 26, 2006 severed cable systems linking the Philippines to other Asian and American countries, causing major slowdown of voice and non-voice data traffic exchange. There can be no assurance that the insurance coverage PLDT maintains for these risks will adequately compensate it for all damages and economic losses resulting from natural catastrophes.

**Item 7. Financial Statements**

Our consolidated financial statements (pages F-1 to F-107) and supplementary schedules (pages S-1 to S-9) listed in the accompanying Index to Financial Statements and Supplementary Schedules on page 141 are filed as part of this annual report.

**Item 8. Information on Independent Auditors and Other Related Matters**

**Independent Auditor’s Fees and Services**

The following table summarizes the fees paid or accrued for services rendered by our independent auditor for the fiscal years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
	(in millions)	
Audit Fees	Php45	Php41
All Other Fees	19	25
<b>Total</b>	<b><u>Php64</u></b>	<b><u>Php66</u></b>

*Audit Fees.* This category includes the audit of our annual financial statements, review of interim financial statements and services that are normally provided by the independent auditor in connection with statutory and regulatory filings or engagements for those fiscal years. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements.

*All Other Fees.* This category consists primarily of fees with respect to our Sarbanes-Oxley Act 404 assessment, certain projects and out-of-pocket and incidental expenses.

The fees presented above includes out-of-pocket expenses incidental to our independent auditors’ work, which amounts do not exceed 5% of the agreed-upon engagement fees.

Our audit committee pre-approves all audit and non-audit services as these are proposed or endorsed before these services are performed by our independent auditor.



## Changes in and Disagreements with Independent Auditors on Accounting and Financial Disclosure

We have no disagreements with our independent auditor on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

### PART III – CONTROL AND COMPENSATION INFORMATION

#### Item 9. Directors and Officers

The names, ages and periods of service, of the current directors, including independent directors, of PLDT are as follows:

<u>Name</u>	<u>Age</u>	<u>Period during which individual has served as such</u>
Manuel V. Pangilinan.....	62	November 24, 1998 to present
Napoleon L. Nazareno.....	59	November 24, 1998 to present
Helen Y. Dee.....	64	June 18, 1986 to present
Ray C. Espinosa .....	52	November 24, 1998 to present
Tatsu Kono.....	56	March 28, 2006 to present
Rev. Fr. Bienvenido F. Nebres, S.J.* .....	68	November 24, 1998 to present
Takashi Ooi.....	47	November 6, 2007 to present
Donald G. Dee <sup>(1)</sup> .....	62	September 30, 2008 to present
Oscar S. Reyes* .....	62	April 5, 2005 to present
Albert F. del Rosario .....	69	November 24, 1998 to present
Pedro E. Roxas* .....	52	March 1, 2001 to present
Alfred V. Ty*.....	41	June 13, 2006 to present
Tony Tan Caktiong <sup>(2)</sup> .....	56	July 8, 2008 to present

\* Independent Director

(1) Elected on September 30, 2008 to replace Corazon de la Paz-Bernardo who resigned as a director on the same date.

(2) Elected on July 8, 2008 to replace Ma. Lourdes C. Rausa-Chan who resigned as a director effective July 7, 2008.

The names, ages, positions and periods of service of the incumbent officers of PLDT as at February 28, 2009 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>	<u>Period during which individual has served as such</u>
Manuel V. Pangilinan.....	62	Chairman of the Board	February 19, 2004 to present
Napoleon L. Nazareno .....	59	President and Chief Executive Officer	February 19, 2004 to present
		President and Chief Executive Officer of Smart	January 2000 to present
Ernesto R. Alberto.....	47	Senior Vice President	May 15, 2003 to present
		Corporate Business Head	May 15, 2003 to January 31, 2008
		Customer Sales and Marketing Head	February 1, 2008 to present
Rene G. Bañez.....	53	Senior Vice President	January 25, 2005 to present
		Chief Governance Officer	October 5, 2004 to March 3, 2008
		Administration and Materials Management Head	January 1, 2008 to present
Anabelle L. Chua .....	48	Senior Vice President	February 26, 2002 to present
		Corporate Finance and Treasury Head	March 1, 1998 to present
		Treasurer	February 1, 1999 to present
		Chief Financial Officer of Smart	December 1, 2005 to present
Jun R. Florencio .....	53	Senior Vice President	June 14, 2005 to present
		Audit and Assurance Head	September 1, 2000 to February 15, 2006
		Internal Audit and Fraud Risk Management Head	February 16, 2006 to present

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>	<u>Period during which individual has served as such</u>
Menardo G. Jimenez, Jr.....	45	Senior Vice President Corporate Communications and Public Affairs Head Retail Business Head Business Transformation Office Revenue Team	December 9, 2004 to present December 1, 2001 to June 15, 2004 June 16, 2004 to December 31, 2007 January 1, 2008 to present
George N. Lim .....	56	Senior Vice President Network Services Head Business Transformation Office Network Team	February 26, 1999 to present February 1, 2003 to December 31, 2007 January 1, 2008 to present
Alfredo S. Panlilio.....	45	Senior Vice President International and Carrier Business Head PLDT Global Corp. President	May 8, 2001 to present February 1, 2003 to June 15, 2004 June 16, 2004 to present
Claro Carmelo P. Ramirez .....	48	Senior Vice President Retail Business Head International and Carrier Business Head Consumer Affairs Head Office of the President and CEO	July 1, 1999 to present February 1, 2003 to June 15, 2004 June 16, 2004 to December 4, 2005 December 5, 2005 to December 31, 2007 January 1, 2008 to present
Ma. Lourdes C. Rausa-Chan .....	55	Corporate Secretary Senior Vice President Corporate Affairs and Legal Services Head Chief Governance Officer	November 24, 1998 to present January 5, 1999 to present March 4, 2008 to present
Victorico P. Vargas .....	57	Senior Vice President Human Resources Head International and Carrier Business Head Business Transformation Office Head	February 15, 2000 to present February 15, 2000 to present March 1, 2007 to December 31, 2007 January 1, 2008 to present
June Cheryl A. Cabal .....	35	First Vice President Financial Reporting and Planning Head Financial Reporting and Controllership Head	May 6, 2008 to present May 1, 2002 to November 15, 2006 November 15, 2006 to present
Florentino D. Mabasa, Jr. ....	50	First Vice President	February 19, 2004 to present
Emiliano R. Tanchico.....	53	First Vice President	May 8, 2001 to present
Ricardo M. Sison.....	47	First Vice President	February 26, 2002 to present
Miguela F. Villanueva.....	57	First Vice President	January 31, 2003 to present
Raymond S. Relucio.....	51	First Vice President	February 19, 2004 to present
Cesar M. Enriquez.....	56	First Vice President	February 19, 2004 to present
Nerissa S. Ramos .....	45	First Vice President	January 25, 2005 to present
Ramon Alger P. Obias.....	56	First Vice President	June 14, 2005 to present
Alfredo B. Carrera.....	54	First Vice President	February 27, 2006 to present
Leo I. Posadas .....	42	First Vice President	March 6, 2007 to present
Danny Y Yu .....	47	First Vice President	May 6, 2008 to present
Mario C. Encarnacion .....	54	Vice President	January 25, 2000 to present
Jesus M. Tañedo.....	57	Vice President	January 1, 2001 to present
Ricardo C. Rodriguez.....	50	Vice President	February 26, 2002 to present
Arnel S. Crisostomo .....	50	Vice President	January 31, 2003 to present
Rebecca Jeanine R. de Guzman .....	46	Vice President	March 1, 2003 to present
Jose Antonio T. Valdez .....	44	Vice President	December 1, 2003 to present
Emeraldo L. Hernandez.....	51	Vice President	February 19, 2004 to present
Joseph Nelson M. Ladaban .....	44	Vice President	February 19, 2004 to present
Lilibeth F. Pasa .....	50	Vice President	January 25, 2005 to present
Enrique S. Pascual, Jr. ....	55	Vice President	January 25, 2005 to present
Jose Lauro G. Pelayo.....	53	Vice President	January 25, 2005 to present
Genaro C. Sanchez.....	47	Vice President	January 25, 2005 to present
Jose A. Apelo .....	50	Vice President	June 14, 2005 to present
Ma. Josefina T. Gorres .....	45	Vice President	June 14, 2005 to present

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>	<u>Period during which individual has served as such</u>
Emmanuel B. Ocumen .....	54	Vice President	June 14, 2005 to present
Gerardo C. Peña .....	56	Vice President	June 14, 2005 to present
Alejandro C. Fabian .....	60	Vice President	February 27, 2006 to present
Elisa B. Gesalta .....	50	Vice President	February 27, 2006 to present
Ma. Criselda B. Guhit .....	46	Vice President	February 27, 2006 to present
Oliver Carlos G. Odulio .....	38	Vice President	March 6, 2007 to present
Anna Maria A. Sotto .....	50	Vice President	March 6, 2007 to present
Julieta S. Tañeca .....	49	Vice President	March 6, 2007 to present
Melissa V. Vergel de Dios .....	46	Vice President	March 6, 2007 to present
Marco Alejandro T. Borlongan .....	41	Vice President	September 14, 2007 to present
Amihan E. Crooc.....	43	Vice President	September 14, 2007 to present
Katrina L. Abelarde.....	33	Vice President	May 6, 2008 to present
Joseph Homer A. Macapagal.....	39	Vice President	July 16, 2008 to present

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

The following is a brief description of the business experience of each of our directors and key officers.

**Mr. Manuel V. Pangilinan** has been a director of PLDT since November 24, 1998. He assumed the chairmanship of the Board of PLDT in February 2004 after serving as its President and Chief Executive Officer for over five years from November 1998. He is the Chairman of the Governance and Nomination Committee and Technology Strategy Committee of the Board of Directors of PLDT. He also serves as Chairman of Smart, Piltel, ePLDT, Metro Pacific Investments Corporation and Landco Pacific Corporation.

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

Outside the First Pacific Group, Mr. Pangilinan is a member of the Board of Overseers of the Wharton School of Finance & Commerce, University of Pennsylvania and is Chairman of the Board of Trustees of Ateneo de Manila University. He also serves as Chairman of the Medical Doctors, Inc. (operating the Makati Medical Center), PLDT-Smart Foundation, Inc., Hongkong Bayanihan Trust and Philippine Business for Social Progress.

Mr. Pangilinan has received numerous prestigious awards including the Ten Outstanding Young Men of the Philippines (TOYM) Award for International Finance (1983), the Presidential Pamana ng Pilipino Award by the Office of the President of the Philippines (1996), Honorary Doctorate in Humanities by the San Beda College (2002), Best CEO in the Philippines by Institutional Investor

(2004), CEO of the Year (Philippines) by Biz News Asia (2004), People of the Year by People Asia Magazine (2004), Distinguished World Class Businessman Award by the Association of Makati Industries, Inc. (2005), Order of Lakandula (Rank of a Komandante) by the Office of the President of the Philippines (2006), and Honorary Doctorate in Humanities by the Xavier University (2007). He was voted as Corporate Executive Officer of the Year (Philippines) at the 2007 and 2008 Best-Managed Companies and Corporate Governance Polls conducted by Asiamoney.

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

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

Mr. Nazareno's business experience spans over 30 years and cuts across a broad range of industries, namely, packaging, bottling, petrochemicals, real estate and, in the last decade, telecommunications and information technologies. In 1981, he started a successful career in the international firm Akerlund & Rausing, occupying senior management to top level positions and, in 1989, became the President and Chief Executive Officer of Akerlund & Rausing (Phils.), Inc. In August 1995, he moved to Metro Pacific Corporation where he served as President and Chief Executive Officer until December 1999.

In November 2004, Mr. Nazareno was appointed by President Gloria Macapagal-Arroyo as Private Sector Representative of the Public-Private Sector Task Force for the Development of Globally Competitive Philippine Service Industries. He was voted Corporate Executive Officer of the Year (Philippines) for three consecutive years at the 2004, 2005 and 2006 Best-Managed Companies and Corporate Governance Polls conducted by Asiamoney.

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

**Mr. Donald G. Dee** was first elected as a director of PLDT on September 30, 2008. He is a Commissioner of the SSS and the Special Envoy of the President of the Philippines for Trade Negotiations. He is the Chairman of Zest Air (formerly "Asian Spirit") and Central Peak Leisure & Development, Inc. where he is also the President, the President of Phoenix Resource & Management Corp. and a director of Manila Exposition Complex, Inc. He is affiliated with several private and government organizations including the Philippine Chamber of Commerce and Industry and Employers' Confederation of the Philippines of which he is the Chairman Emeritus and the Export Development Council of which he is an Executive Committee member. Mr. Dee received his Commerce Degree from De La Salle University.

**Ms. Helen Y. Dee** has been a director of PLDT since June 18, 1986. She is the Chairman or a director of several companies engaged in the banking, insurance and real property businesses and the President and/or Chief Executive Officer of Moira Management, Inc., YGC Corporate Services, Inc., GPL Holdings, Inc., Hydee Management & Resources Inc., House of Investments, Inc., Tameena Resources, Inc., Grepalife Asset Management Corporation, Grepalife Fixed Income Fund Corporation

and Financial Brokers Insurance Agency, Inc. Ms. Dee received her Master's Degree in Business Administration from De La Salle University.

**Atty. Ray C. Espinosa** has been a director of PLDT since November 24, 1998. He is the President and Chief Executive Officer of ePLDT. He is the Chairman of certain of the subsidiaries of ePLDT, Inc. and the Vice Chairman of Philweb Corporation, an independent director of Lepanto Consolidated Mining Company and the Vice Chairman of the Board of Trustees of the PLDT Beneficial Trust Fund. In March 2008, he was appointed as Regulatory Affairs and Policies Head of PLDT. Until June 2000, he was a partner and member of the Executive Committee of the law firm Sycip Salazar Hernandez & Gatmaitan. Mr. Espinosa received his Master of Laws Degree from the University of Michigan Law School.

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

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

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

**Mr. Oscar S. Reyes** has been a director of PLDT since April 5, 2005. He serves as a member of the Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees of the Board of Directors of PLDT, and is an independent director of Smart. He is a director of various public companies and private firms engaged in banking, insurance, financial and business advisory services, beverages, electrical products manufacturing, mining and a water distribution utility. He was the Country Chairman of the Shell Companies in the Philippines from 1997 to 2001 and concurrently the Managing Director of Shell Philippines Exploration B.V. until 2002. From 2002 to 2004, he was the Senior Management Adviser of Shell Philippines Exploration B.V. and the CEO Adviser of Pilipinas Shell Petroleum Corporation. Mr. Reyes completed the Master in Business Administration Program of the Ateneo Graduate School of Business and the Management Development Program of the Harvard Business School, and holds a Diploma in International Business from Waterloo University, Canada.

**Mr. Albert F. del Rosario** has been a director of PLDT since November 24, 1998. He serves as Chairman of the Executive Compensation Committee of the Board of Directors of PLDT and is the Chairman of the Board of Trustees of the PLDT Beneficial Trust Fund. He sits on the board of First Pacific Company Ltd. and is a Commissioner of P.T. Indofood Sukses Makmur Tbk, the largest food company in Indonesia. He is the President of ADR Holdings, Inc. and PTIC and is a director of several companies engaged in insurance brokerage, infrastructure, property development and media businesses. From 2001 to 2006, he served as the Ambassador Plenipotentiary and Extraordinary of the Republic of the Philippines to the United States of America. Mr. del Rosario received his Bachelor of Science Degree in Economics from the New York University.

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

**Mr. Tony Tan Caktiong** has been a director of PLDT since July 8, 2008. He is the Chairman, President and Chief Executive Officer of Jollibee Foods Corporation, a leader in the fast food business, which owns and operates a chain of “Jollibee” restaurants nationwide and abroad, and other fast food chains including Chowking, Greenwich, Dèlifrance, Red Ribbon and Manong Pepe as well as a director of First Gen Corporation. Mr. Tan Caktiong is a recipient of numerous awards from various organizations, including the prestigious Philippine Entrepreneur of the Year Award in 2003 given by Ernst & Young, and the World Entrepreneur of the Year Award in 2004. Mr. Tan Caktiong honed his business skills by attending various courses and seminars in several educational institutions such as the Asian Institute of Management, Stanford University (Singapore) and Harvard University.

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

**Mr. Ernesto R. Alberto** was appointed in February 2008 as Head of Customer Sales and Marketing Group which was created to consolidate and synchronize all revenue generation relationship initiatives of PLDT including product/market development, product management, marketing, sales and distribution, and customer relationship management. He was the Corporate Business Head of PLDT from May 2003 until January 2008. He has over 20 years of work experience in the areas of corporate banking, relationship management and business development and, prior to joining PLDT in 2003, was a Vice President and Head of the National Corporate Group of Citibank N.A., Manila from 1996 to May 2003. He previously served as Vice President and Head of the Relationship Management Group of Citytrust Banking Corporation. Mr. Alberto holds directorships in certain subsidiaries of PLDT.

**Mr. Rene G. Bañez** was appointed as Administration and Materials Management Group Head in January 2008. He was the Chief Governance Officer of PLDT from October 2004 to March 3, 2008 and the Head of Support Services and Tax Management Group of PLDT from January 1999 to January 2001. He served as Commissioner of the Philippine Bureau of Internal Revenue from February 2001 to

August 2002. Prior to joining PLDT, he was the Group Vice President for Tax Affairs of Metro Pacific Corporation for 3 years until December 1998.

**Ms. Anabelle L. Chua**, Treasurer and Head of Corporate Finance and Treasury of PLDT, concurrently holds the position of Chief Financial Officer of Smart. She holds directorships in several subsidiaries and affiliates of PLDT, is a member of the Board of Trustees of the PLDT Beneficial Trust Fund, and a director of the Philippine Stock Exchange, Inc. and Securities Clearing Corporation of the Philippines. She has over 15 years of work experience in the areas of corporate finance, treasury, financial control and credit risk management, and was a Vice President at Citibank, N.A. where she worked for 10 years prior to joining PLDT in 1998.

**Mr. Jun R. Florencio**, Head of Internal Audit and Fraud Risk Management, has over 20 years of work experience in the areas of external and internal audit, credit management, information technology, financial management, and controllership. He joined the Company in April 1999 and, prior to his present position, served as the Financial Reporting and Control Head up to March 2000. He previously held various positions in the finance organization of Eastern Telecommunications and was the Financial Controller of Smart for 4 years until March 1999.

**Mr. Menardo G. Jimenez, Jr.** was appointed as Business Transformation Office Lead for Revenue Composition Workstream in January 2008. He was the Retail Business Head from June 2004 to December 31, 2007. He had a stint at GMA Network, Inc., where he served as head of a creative services and network promotions, during which he produced a number of international award-winning campaigns for said company and its radio and television programs. In 2005, he won the first CEO Excel Award (Communications Excellence in Organizations) given by the International Association of Business Communicators mainly for effectively using communication strategies in managing the PLDT Retail Business team to meet its targets and achieve new heights in the landline business. In 2006, his further achievements in handling the retail business of PLDT and his stint in Smart as officer-in-charge for marketing were recognized by the Agora Awards which chose him as its Marketing Man of the Year.

**Mr. George N. Lim** was appointed as Business Transformation Office Lead for Network Workstream in January 2008. He has over 25 years of work experience in telecommunications management. He was the Network Services Head from February 2003 to December 2007, Network Development and Provisioning Head from February 1999 to January 2003 and Marketing Head from December 1993 to February 1999. Mr. Lim holds directorships in some subsidiaries of PLDT.

**Mr. Alfredo S. Panlilio** is the President of PLDT Global Corporation with general management and strategic responsibilities for the international retail business. He has over 15 years of work experience in the fields of business development and information technology. Prior to joining PLDT in July 1999, he held management positions at IBM Philippines, Inc. and was the Vice President for Business Development of the Lopez Communications Group (ABS-CBN Broadcasting, BayanTel and Sky Cable) until June 1999. Mr. Panlilio holds directorships in some subsidiaries of PLDT and PLDT Global.

**Mr. Claro Carmelo P. Ramirez** has over 20 years of work experience in the field of marketing. He worked as Associate Director for Colgate Palmolive Company, Global Business Development in New York, and as Marketing Director for Colgate Palmolive Argentina, S.A.I.C. Prior to joining PLDT in July 1999, he was the Marketing Director of Colgate Palmolive Philippines, Inc.

**Atty. Ma. Lourdes C. Rausa-Chan** was appointed as Chief Governance Officer of PLDT in March 2008, concurrent with her positions as Corporate Secretary and Head of Corporate Affairs and Legal Services. She also serves as Corporate Secretary of several subsidiaries of PLDT. Prior to

joining PLDT in November 1998, she was the Group Vice President for Legal Affairs of Metro Pacific Corporation where she worked for 11 years.

**Mr. Victorico P. Vargas** was appointed as Business Transformation Office Head in January 2008, concurrent with his position as Human Resources Group Head, to lead the business transformation initiatives of PLDT. He has over 20 years of work experience in various industries (insurance, consumer goods, real estate, banking and finance, telecommunications/information technology) in the area of human resource management. Prior to joining PLDT in February 2000, he served as the Country Human Resources Director of Citibank N.A., Manila and spent two years outside the Philippines as Country Human Resources Director of Citibank, N.A., Bangkok. Mr. Vargas is a director of some subsidiaries of PLDT.

**Ms. June Cheryl A. Cabal**, head of Financial Reporting and Controllershship. She joined PLDT in June 2000 as an Executive Trainee in the Finance Group, then served as an Executive Assistant to the Corporate Finance and Treasury Sector Head from December 2000 to April 2002. Prior to her present position, she was the Head of Financial Reporting and Planning Center. She was the 2008 Young Achievers Awardee for Commerce and Industry conferred by the Philippine Institute of Certified Public Accountants. From 1993 to 1997, she was a senior associate in the business audit and advisory group of Sycip Gorres Velayo & Co., or SGV & Co. She is a director and the chief financial officer and treasurer of certain subsidiaries of PLDT and the PLDT-Smart Foundation, Inc. She received her Bachelor of Accountancy degree from the De La Salle University and her Master's degree in Business Management from the Asian Institute of Management.

The following is a brief description of the business experience of each of the other members of senior management of PLDT as at February 28, 2009:

**Atty. Ray C. Espinosa** was appointed in March 2008 as Head of the Regulatory Affairs and Policies organization, in addition to his current functions as President and Chief Executive Officer of ePLDT. He is responsible for providing top-level direction and coordinating closely with the various units of PLDT as well as all the subsidiaries and affiliates of PLDT to ensure effective implementation of government and telecommunications regulatory strategies, policies and other related matters.

**Mr. Rolando G. Peña** was appointed in January 2008 as Head of Customer Service Assurance Group. He is responsible for managing the overall development and implementation of strategies and programs covering network engineering and operations, facility provisioning and maintenance, and customer servicing and fulfillment. Mr. Peña has over 20 years of experience in telecommunication operations and was chosen as Electronics and Communications Engineer for the year 2000 by the Institute of Electronics and Communications Engineers of the Philippines. From 1999 to 2007, he was the Head of Network Services Division of Smart and prior to joining Smart in 1994, he was the First Vice President in charge of Technical Operations of Digital Telecommunications Philippines, Inc. Mr. Peña holds directorships in some subsidiaries of PLDT and Smart.



The following is a list of other private and public companies in which some of the aforementioned directors/independent directors hold directorships:

Name of Director	Name of Companies	
	Public	Private
Helen Y. Dee	EEI Corporation Petro Energy Resources Corporation Rizal Commercial Banking Corporation (Chairman) Seafront Resources Corporation	AY Holdings, Inc. Business Harmony Realty, Inc. Great Life Financial Assurance Corporation  Great Pacific Life Assurance Corp. Grepalife Asset Management Corp. (Chairman) Grepalife Fixed Income Fund Corp. (Chairman) Hi-Eisai Pharmaceuticals, Inc. (Chairman) Honda Cars Philippines, Inc. Isuzu Philippines, Inc. La Funeraria Paz, Inc. Landev Corp. (Chairman) Malayan Insurance Company (Chairman) Manila Memorial Park Cemetery, Inc. (Chairman) Mapua Information Technology Center, Inc. (Chairman) MICO Equities, Inc. Pan Malayan Management and Investment Corporation (Vice Chairman) Pan Malayan Realty Corp. (Chairman) RCBC Forex Brokers Corp. RCBC Savings Bank (Chairman) South Western Cement Corporation
Ray C. Espinosa	Lepanto Consolidated Mining Company PhilWeb Corporation	Digital Paradise, Inc. (Chairman) ePDS, Inc. (Chairman) ePLDT Ventus, Inc. (Chairman) Infocom Technologies, Inc. (Chairman) Level Up! (Philippines), Inc. (Chairman) netGames, Inc. (Chairman) Parlance Systems, Inc. (Chairman) SPi Technologies, Inc. (Chairman) Vocativ Systems, Inc. (Chairman)
Albert F. del Rosario	First Philippine Infrastructure, Inc. Metro Pacific Investments Corporation	Asia Insurance Philippines Corporation (Vice Chairman) Bancholders, Inc. Business World Publishing Corporation (Chairman) Gotuaco del Rosario and Associates, Inc. (Chairman) Infrontier (Philippines), Inc. Landco Pacific Corporation LMG Chemicals Corporation Manila North Tollways Corporation MediaQuest Holdings, Inc. MediaScape, Inc. Nation Broadcasting Corporation Philippine Indocoil Corporation (Chairman) Stratbase, Inc. (Chairman)
Oscar S. Reyes	Bank of the Philippine Islands Basic Energy Corporation Manila Water Company, Inc. Pepsi Cola Products Philippines, Inc.	CEO's Inc. First Philippine Electric Company In1 Archipelago Minerals, Inc. Link Edge, Inc. (Chairman) Mindoro Resources Ltd. MRL Gold Phils. Inc. (Chairman) Petrolift, Inc. Sun Life of Canada Phils. Inc. Sun Life Dollar Advantage & Dollar Abundance Funds, Inc. Sun Life Financial, Inc.

### Terms of Office

The directors of PLDT are elected each year to serve until the next annual meeting of stockholders and until their successors are elected and qualified. The term of office of all officers is

coterminous with that of the board of directors that elected or appointed them.

### **Family Relationships**

None of the directors and officers of PLDT or persons nominated to become directors or officers of PLDT has any family relationships up to the fourth civil degree either by consanguinity or affinity.

### **Legal Proceedings**

PLDT is not aware, and none of the directors/independent directors and officers has informed PLDT, of any of the following events:

- (a) any bankruptcy petition filed by or against any business of which a director/independent director or officer was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (b) any conviction by final judgment in a criminal proceeding, domestic or foreign, or any criminal proceeding, domestic or foreign, pending against any director/independent director or officer, except as noted below;
- (c) any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any director/independent director or officer in any type of business, securities, commodities or banking activities; and
- (d) any finding by a domestic or foreign court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self regulatory organization, that any director/independent director or officer, has violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated, which occurred during the past five years.

The following is a description of the cases in which our Chairman, Manuel V. Pangilinan, our President and Chief Executive Officer, Mr. Napoleon L. Nazareno, our director, Mr. Albert F. del Rosario and our Corporate Secretary, Ms. Ma. Lourdes C. Rausa-Chan are respondents:

1. Mr. Manuel V. Pangilinan, in his capacity as Chairman of the Board of Metro Pacific Corporation, a stockholder of Metro Tagaytay Land Company, Inc., or MTLCI, and four other individuals were respondents in I.S. 04-A-1057 for alleged violation of Article 315 (1)(b), or Estafa, of the Revised Penal Code filed by Mr. Vicente A. Tuason in behalf of Universal Leisure Club, Inc. (ULCI) and Mr. Jose L. Merin in behalf of Universal Rightfield Property Holdings, Inc. (URPHI).

In the complaint-affidavit, Messrs. Tuason and Merin alleged that, in violation of the trust reposed by ULCI and certain contractual commitments and representations, MTLCI, with the participation and/or conformity of the respondents, misappropriated and converted Php139 million that ULCI entrusted for the purpose of incorporating Golf Land Co., Inc. (GLCI), a corporation to be wholly-owned by MTLCI and to which a property of MTLCI was to be transferred in exchange for shares in GLCI. The said shares were then supposed to be transferred to ULCI.

Based on his counsel's advice, Mr. Pangilinan cannot be held liable for violating Article 315 (1)(b) of the Revised Penal Code because no document or other evidence has been presented to prove that Mr. Pangilinan actually participated in the negotiation, preparation, approval, execution and/or implementation of the agreement/contract upon which the claims of the complainants are purportedly based, much less that Mr. Pangilinan, with abuse of trust and confidence, misappropriated any amounts paid by ULCI to MTLCI.

On March 25, 2004, Mr. Pangilinan submitted his counter-affidavit in I.S. No. 04-A-1057, including therein counter-charges against Messrs Tuason and Merin for Perjury and Unjust Vexation. These counter-charges were docketed as I.S. No. 04-C-5493-94.

In a Joint Resolution dated June 7, 2004, the City Prosecution Office of Makati dismissed all charges in the Estafa case against Mr. Pangilinan as well as the counter-charges for Perjury and Unjust Vexation against Messrs. Tuason and Merin.

On November 16, 2004, MTLCI, through Mr. Pangilinan and ULCI, through Messrs. Tuason and Merin, filed with the Philippine Department of Justice, or DOJ, their respective Petitions for Review assailing the Resolution of the City Prosecution Office of Makati. Thereafter, the complainants and respondents including Mr. Pangilinan filed, with the assistance of their respective counsels, a Joint Motion to Dismiss (with prejudice) the charges and counter-charges subject of the investigation before the DOJ.

On March 20, 2006, Mr. Pangilinan, through counsel, filed a Manifestation and Motion reiterating the parties' prayer in their Joint Motion to Dismiss that the cases be dismissed with prejudice. On March 6, 2008, the DOJ promulgated a Resolution dismissing the appeal by ULCI of the Resolution of the City Prosecution Office of Makati dismissing ULCI's complaint for Estafa against Mr. Pangilinan, et al. The same Resolution of the City Prosecution Office of Makati dismissed Mr. Pangilinan's counter-charges (Perjury and Unjust Vexation) against Messrs. Tuason and Merin of ULCI. Mr. Pangilinan also appealed the said Resolution of the City Prosecution Office of Makati before the DOJ. The DOJ has yet to rule on Mr. Pangilinan's appeal which remains pending despite the parties' Joint Motion to Dismiss.

2. Mr. Napoleon L. Nazareno, in his capacity as President and Chief Executive Officer of Smart, is a respondent in a complaint docketed as I.S. 07-3216-F filed with the Cebu City Prosecutor's Office by Integrated Distribution Network, Inc., or IDNI, for alleged estafa and violation of R.A. 8484 or the "Access Devices Regulation Act of 1988". IDNI alleged that Smart, through its directors and officers including Mr. Nazareno (respondent in this complaint), perpetrated fraud by blocking the SIMs of its sub-dealers. The dispute arose from contracts executed between Smart and IDNI on roving billboards. The parties entered into a settlement agreement allowing IDNI to purchase electronic load from Smart within a specific period and for a specified amount. It is Smart's position that IDNI's cause of action, if any, is purely civil in nature.

The Cebu City Prosecutor's Office issued a Resolution dated November 12, 2007, finding probable cause to indict respondents for estafa and violation of R.A. 8484 or the "Access Devices Regulation Act of 1988". On January 10, 2008, Mr. Nazareno filed a Petition for Review before the DOJ seeking the reversal of the Resolution mentioned above. On May 13, 2008, the DOJ issued a Resolution granting the Petition for Review. In said Resolution, the DOJ directed the Prosecutor of Cebu City to cause the withdrawal of the Information for estafa and violation of the Access Devices Regulation Act of 1988, if any has been filed in court, against Mr. Nazareno.

On July 15, 2008, the complainant filed a Motion for Reconsideration of the aforementioned DOJ Resolution and on October 3, 2008, Mr. Nazareno together with the other respondents filed their Opposition. The Motion for Reconsideration filed by the complainant is pending resolution by the DOJ.

3. Messrs. Napoleon L. Nazareno and Albert F. del Rosario and other directors and officers of the former PDCP Bank and some officers of the BSP and Development Bank of the Philippines, are respondents in a complaint docketed as I.S. No. 2004-631 filed by Chung Hing Wong/Unisteel/Unisco Metals, Inc. with the DOJ, for alleged syndicated estafa, estafa thru falsification of documents, other deceits, malversation and robbery. In the complaint-affidavit, the complainant alleged that the officers and directors of PDCP Bank deceived the complainant to secure a loan from PDCP Bank through misrepresentation and with the sinister purpose of taking over the complainant's corporation. As stated in their respective counter-affidavits, the charges against the PDCP directors including Messrs. Nazareno and del Rosario are manifestly unmeritorious. These directors have not personally met the complainants, nor are they parties to the questioned transactions and, as such, could not have deceived the complainants in any manner. The complaint was referred to the Office of the Ombudsman, or OMB, by the DOJ on October 30, 2007 considering that some of the respondents are public officers and the offenses charged were committed in the performance of their official functions.

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

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

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

complaint. Mr. del Rosario and Ms. Rausa-Chan had no participation or involvement in the alleged anomalous acquisition and transfer of the subject tax credit certificates. The case is still pending with the OMB.

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

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

#### *Audit Committee*

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

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

With respect to the external auditors, the audit committee has the following duties and powers:

- to review and evaluate the qualifications, performance and independence of the external auditors and the lead partner of the external auditors;
- to select and appoint the external auditors and to remove or replace the external auditors;
- to review and approve in consultation with the head of the internal audit organization and the chief financial advisor the fees charged by the external auditors for audit and non-audit services;
- to pre-approve all audit and non-audit services engagement with the external auditors;
- to ensure that the external auditors prepare and deliver annually the statement as to independence, to discuss with the external auditors any relationships or services disclosed in such statements that may impact the objectivity, independence or quality of services of said external auditors and to take appropriate action in response to such statement to satisfy itself of the external auditor's independence;
- to ensure that the external auditors or the lead partner of the external auditors having the primary responsibility for the audit of PLDT's accounts is rotated at least once every five (5) years;

- to advise the external auditors that they are expected to provide the committee a timely analysis of significant/critical financial reporting issues and practices;
- to obtain assurance from the external auditors that the audit was conducted in a manner consistent with the requirement under applicable rules; and
- to resolve disagreements between management and the external auditors regarding financial reporting

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

#### *Audit Committee Report*

Further to our compliance with applicable corporate governance laws and rules, our audit committee confirmed in its report for 2008 that:

- Each voting member of the audit committee is an independent director as determined by the board of directors;
- In the performance of their oversight responsibilities, the audit committee has reviewed and discussed our audited financial statements as at and for the year ended December 31, 2008 with management, which has the primary responsibility for the financial statements, and with SGV & Co., our independent auditor, who is responsible for expressing an opinion on the conformity of our audited financial statements with generally accepted accounting principles;
- The audit committee has discussed with SGV & Co. the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees) as modified or supplemented;
- The audit committee has received written disclosures and the letter from SGV & Co. required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with SGV & Co. its independence from the PLDT Group and the PLDT Group's management;
- The audit committee likewise discussed with our internal audit group and SGV & Co. the overall scope and plans for their respective audits. The audit committee also met with our internal audit group and representatives of SGV & Co. to discuss the results of their examinations, their evaluations of our internal controls and the overall quality of our financial reporting;
- Based on the reviews and discussions referred to above, in reliance on management and SGV & Co. and subject to the limitations of the audit committee's role, the audit committee recommended to our board of directors and our board has approved, the inclusion of our financial statements as at and for the year ended December 31, 2008 in our Annual Report to the Stockholders and to the Philippine SEC and U.S. SEC on Form 17-A and Form 20-F, respectively; and
- Based on a review of SGV & Co.'s performance and qualifications, including consideration of management's recommendation, the audit committee approved the appointment of SGV & Co. as our independent auditor.

### *Governance and Nomination Committee*

Our governance and nomination committee is composed of five voting members, all of whom are regular members of our Board of Directors, and two non-voting members. Three of the voting members are independent directors namely, Rev. Fr. Bienvenido F. Nebres, S.J., Mr. Alfred V. Ty and Mr. Oscar S. Reyes. Two are non-independent directors namely, Mr. Tatsu Kono and Mr. Manuel V. Pangilinan who is the chairman of this committee. Mr. Victorico P. Vargas and Atty. Ma. Lourdes C. Rausa-Chan are the non-voting members.

The principal functions and responsibilities of our Governance and Nomination Committee are:

1. To develop and recommend to the board for approval and oversee the implementation of corporate governance principles and policies;
2. To review and evaluate the qualifications of the persons nominated for election as directors (including independent directors) or other positions requiring Board appointment;
3. To identify the qualified nominees and recommend that the Board select and recommend such qualified nominees for election as directors/independent directors at the annual meeting of shareholders; and
4. To assist our board in developing and implementing the board's performance evaluation process.

### *Executive Compensation Committee*

Our executive compensation committee is composed of five voting members, all of whom are regular members of our board of directors, and one non-voting member. Three of the voting members are independent directors, namely Mr. Pedro E. Roxas, Mr. Oscar S. Reyes and Mr. Alfred V. Ty, and two are non-independent directors, namely, Mr. Tatsu Kono and Mr. Albert F. del Rosario, who is chairman of this committee. Mr. Victorico P. Vargas is a non-voting member.

The principal functions and responsibilities of our executive compensation committee are:

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

### *Technology Strategy Committee*

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

The principal functions and responsibilities of our technology strategy committee are:

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

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

## **Item 10. Executive Compensation and Stock Option Plan**

### **Executive Compensation**

The following table is the list of the key officers, including the chief executive officer, and directors of PLDT as at February 28, 2009:

<b>Name</b>	<b>Position(s)</b>
Manuel V. Pangilinan.....	Director, Chairman of the Board
Napoleon L. Nazareno.....	Director, President and Chief Executive Officer
Helen Y. Dee .....	Director
Albert F. del Rosario .....	Director
Donald G. Dee.....	Director
Ray C. Espinosa .....	Director
Rev. Fr. Bienvenido F. Nebres, S.J. ....	Independent Director
Alfred V. Ty .....	Independent Director
Oscar S. Reyes.....	Independent Director
Pedro E. Roxas .....	Independent Director
Tatsu Kono .....	Director
Takashi Ooi .....	Director
Tony Tan Caktiong.....	Director
Ernesto R. Alberto.....	Senior Vice President, Customer Sales and Marketing Head
Rene G. Bañez.....	Senior Vice President, Administration and Materials Management Head
Anabelle L. Chua.....	Senior Vice President, Corporate Finance and Treasury Head and Treasurer
Jun R. Florencio .....	Senior Vice President, Internal Audit and Fraud Risk Management Head
Menardo G. Jimenez Jr. ....	Senior Vice President, Business Transformation Office
George N. Lim.....	Senior Vice President, Business Transformation Office
Alfredo S. Panlilio.....	Senior Vice President, PLDT Global Corp. President
Claro Carmelo P. Ramirez.....	Senior Vice President, Office of the President and CEO
Ma. Lourdes C. Rausa-Chan .....	Senior Vice President, Corporate Affairs and Legal Services Head, Corporate Secretary and Chief Governance Officer
Victorico P. Vargas .....	Senior Vice President, Human Resources Head and Business Transformation Office Head
June Cheryl A. Cabal.....	First Vice President, Financial Reporting and Controllershship Head



The following table below sets forth the aggregate amount of compensation paid in 2007 and 2008 and estimated amount of compensation expected to be paid in 2009 to: (1) the President and Chief Executive Officer, Napoleon L. Nazareno and four most highly compensated officers of PLDT, as a group, namely; Victorico P. Vargas, Anabelle L. Chua, Ernesto R. Alberto and Ma. Lourdes C. Rausa-Chan; and (2) all other key officers, other officers and directors, as a group.

	<u>2007</u>	<u>2008</u>	<u>2009</u>
	<u>Actual</u>		<u>Estimate</u>
	(in millions)		
President and CEO <sup>(1)(4)</sup> and four most highly compensated key officers:			
Salary <sup>(2)</sup>	Php36	Php41	Php49
Bonus <sup>(3)</sup>	9	8	10
Other compensation <sup>(4)</sup>	252	46	48
	<u>297</u>	<u>95</u>	<u>107</u>
All other key officers, other officers and directors as a group (excluding the President and CEO and four most highly compensated key officers):			
Salary <sup>(2)</sup>	194	188	220
Bonus <sup>(3)</sup>	50	48	60
Other compensation <sup>(4)</sup>	1,063	266	223
	<u>Php1,307</u>	<u>Php502</u>	<u>Php503</u>

(1) *The President and CEO receives compensation from Smart.*

(2) *Basic monthly salary.*

(3) *Includes longevity pay, mid-year bonus, 13<sup>th</sup> month and Christmas bonus.*

(4) *Includes variable pay, director's fee and other payments. Variable pay is based on an annual incentive system that encourages and rewards the achievement of corporate objectives. It covers regular officers and executives of PLDT and is based on a percentage of their guaranteed annual cash compensation. Also includes LTIP payout in May 2007.*

Each of the directors of PLDT is entitled to a director's fee in the amount of Php125,000 for each meeting of the Board of Directors attended. In addition, the directors who serve in the committees of the Board of Directors, namely, the Audit Committee, Governance and Nomination Committee, Executive Compensation Committee and Technology Strategy Committee, are each entitled to a fee in the amount of Php50,000 for each committee meeting attended.

On January 27, 2009, the Board of Directors of PLDT approved the increase in director's fee to Php200,000 for board meeting attendance and to Php75,000 for Board Committee meeting attendance. The director's fee was last adjusted in July 1998. The Executive Compensation Committee recommended the increase taking into consideration PLDT's profitability growth (versus Board remuneration) and the results of the survey on Board remuneration conducted by Watson Wyatt, which showed that PLDT directors' remuneration consisting only of fees for meeting attendance were below the median of directors' remuneration among the participating companies consisting of fees for meeting attendance and/or retainer fees and profit share.

Except for the fees mentioned above, the directors are not compensated, directly or indirectly, for their services as such directors.

### **Executive Stock Option Plan**

On April 27, 1999 and December 10, 1999, the board of directors and stockholders, respectively, of PLDT approved the executive stock option plan covering a total of 1,289,745 shares of common stock and the amendment of the Seventh Article of the Articles of Incorporation of PLDT denying the pre-emptive right of holders of shares of common stock to subscribe for any of the 1,289,745 shares of common stock issued pursuant to the executive stock option plan.

Stock options that were granted pursuant to the executive stock option plan to management executives and advisors/consultants of PLDT became fully vested in December 2004. An option holder may exercise his option to purchase that number of vested shares of common stock underlying his option, in whole or in part, at the price at Php814 per share, subject to adjustment upon the occurrence of specific events described in the executive stock option plan. The option exercise period is until December 9, 2009. The option holder is required to give written notice of exercise to the executive compensation committee, indicating the number of vested shares to be purchased, accompanied by payment in cash of the full amount of the purchase price for those shares.

The key officers of PLDT were granted options to purchase a total of 206,942 shares of common stock, all of which have been exercised as at February 28, 2009.

The total shares of common stock allocated for options granted to all the officers of PLDT, as a group, is 399,565, out of which 386,431 were exercised as at February 28, 2009.

Except for options granted to the officers, there are no other warrants or options held by PLDT's officers or directors either singly or collectively.

### **Long-Term Incentive Plan**

On August 3, 2004, PLDT's Board of Directors approved the establishment of the Original LTIP, for eligible key executive officers and advisors of PLDT and its subsidiaries, which is administered by the Executive Compensation Committee. The Original LTIP was a four-year cash-settled share based plan covering the period from January 1, 2004 to December 31, 2007, or the Performance Cycle. The payment was intended to be made at the end of the Performance Cycle (without interim payments) and contingent upon the achievement of an approved target increase in PLDT's common share price by the end of the Performance Cycle and a cumulative consolidated net income target for the Performance Cycle.

On August 28, 2006, PLDT's Board of Directors approved, in principle, the broad outline of the PLDT Group's strategic plans for 2007 to 2009 focusing on the development of new revenue streams to drive future growth while protecting the existing core communications business. To ensure the proper execution of the three-year plan, particularly with respect to the manpower resources being committed to such plans, a New LTIP, upon endorsement by the executive compensation committee, was approved by the board of directors to cover the period from January 1, 2007 to December 31, 2009, or New Performance Cycle for those of its participants who were invited and chose to join the new LTIP. Participants in the current LTIP who were not invited to join the new LTIP, or who were invited but chose not to join, remained subject to the current LTIP and its original vesting schedule.

As a result of the establishment of the New LTIP, the board of directors also approved the early vesting of the Original LTIP by the end of 2006 for those of its participants who were invited and chose to join the New LTIP. Participants in the Original LTIP who were not invited to join the New LTIP, or who were invited but chose not to join, remained subject to the Original LTIP and its original vesting schedule.

The New LTIP, like the Original LTIP, is a cash plan that is intended to provide meaningful, contingent, financial incentive compensation for eligible executives, officers and advisors of the PLDT Group, who are consistent performers and contributors to the achievement of the long-term strategic plans and objectives, as well as the functional strategy and goals of the PLDT Group.

The New LTIP, like the Original LTIP, is administered by the executive compensation committee which has the authority to determine (a) eligibility and identity of participants; (b) the award attributable to each participant based on the participant's annual base compensation and taking into

account such participant's seniority, responsibility level, performance potential, tenure with the PLDT Group, job difficulty and such other measures as the Committee deems appropriate; (c) the level of achievement of the performance objectives; and (d) the actual award payable to each participant based on the level of achievement of the performance objectives.

LTIP costs for the year ended December 31, 2008, 2007 and 2006 amounted to Php1,281 million, Php1,448 million and Php3,150 million, respectively. As at December 31, 2008 and 2007, outstanding LTIP liability amounted to Php2,749 million and Php1,494 million, respectively, see *Note 23 – Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 7.

## Item 11. Security Ownership of Certain Beneficial Owners, Directors and Officers

### Security Ownership of Certain Beneficial Owners

The following table sets forth information regarding ownership of shares of PLDT's common stock as at February 28, 2009, of all shareholders known to us to beneficially own 5% or more of PLDT's shares of common stock, or, collectively, our Major Shareholders. All shares of PLDT's common stock have one vote per share. Our Major Shareholders do not have voting rights that are different from other holders of shares of PLDT's common stock.

Title of Class	Name and Address of Record Owner and Relationship With Issuer	Place of Incorporation	Name of Beneficial Owner and Relationship with Record Owner	Number of Shares Held of Record	Percentage of Class
Common	Metro Pacific Resources, Inc. <sup>(1)</sup> c/o Corporate Secretary 18th Floor, Liberty Center, 104 H. V. dela Costa St. Salcedo Village, Makati City	Philippine Corporation	Same as Record Owner	15,745,172 <sup>(3)</sup>	8.40
Common	Philippine Telecommunications Investment Corporation <sup>(2)</sup> 12th Floor Ramon Cojuangco Bldg. Makati Avenue, Makati City	Philippine Corporation	Same as Record Owner	26,034,263 <sup>(3)</sup>	13.89
Common	NTT Communications Corporation <sup>(4)</sup> 1-1-6 Uchisaiwai-cho 1-Chome, Chiyoda-ku Tokyo 100-8019, Japan	Japanese Corporation	See Footnote <sup>(6)</sup>	12,633,487	6.74
Common	NTT DoCoMo, Inc. <sup>(5)</sup> 41st Floor, Sanno Park Tower 2-11-1 Nagata-cho, Chiyoda-ku Tokyo 100-6150, Japan	Japanese Corporation	See Footnote <sup>(6)</sup>	18,234,821 <sup>(6)</sup>	9.73
Common	Social Security System <sup>(7)</sup> SSS Building East Avenue, Quezon City	Philippine Corporation	Same as Record Owner	5,024,788	2.68
Common	PCD Nominee Corporation <sup>(8)</sup> 37/F Enterprise Building, Tower I Ayala Avenue cor. Paseo de Roxas Makati City	Philippine Corporation	See Footnote <sup>(8)</sup>	61,542,659	32.83
Common	J. P. Morgan Asset Holdings (HK) Limited <sup>(9)</sup> (various accounts) 20/F Chater House 8 Connaught Road Central, Hongkong	HongKong Corporation	See Footnote <sup>(9)</sup>	43,097,297	22.99

<b>Title of Class</b>	<b>Name and Address of Record Owner and Relationship With Issuer</b>	<b>Place of Incorporation</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Number of Shares Held of Record</b>	<b>Percentage of Class</b>
Common	Capital Research Global Investors <sup>(10)</sup>	Delaware Corporation	See Footnote <sup>(10)</sup>	15,098,070	8.05

<sup>(1)</sup> In addition to the 15,745,172 shares owned on record by Metro Pacific Resources, Inc., or MPRI, MPRI beneficially owned 650,000 shares held of record by PCD Nominee Corporation, or PCD, as of February 28, 2009. The total shareholdings of MPRI is 16,395,172 shares of PLDT common stock representing 8.74% of the outstanding common stock of PLDT as at February 28, 2009. Based on a resolution adopted by the Board of Directors of MPRI, Mr. Manuel V. Pangilinan has been appointed as proxy or duly authorized representative of MPRI to represent and vote the PLDT shares of common stock of MPRI at the Annual Meeting of stockholders of PLDT.

<sup>(2)</sup> Pursuant to a resolution adopted by the Board of Directors of PTIC, the chairman of PTIC, Mr. Manuel V. Pangilinan, has the continuing authority to represent PTIC at any and all meetings of the stockholders of a corporation in which PTIC owns of record or beneficially any shares of stock or other voting security, and to sign and deliver, in favor of any person he may deem fit, a proxy or other power of attorney, with full power of delegation and substitution, authorizing his designated proxy or attorney-in-fact to vote any and all shares of stock and other voting securities owned of record or beneficially by PTIC at any and all meetings of the stockholders of the corporation issuing such shares of stock or voting securities.

<sup>(3)</sup> First Pacific Group beneficially owned 26.37% of the outstanding common stock of PLDT as at February 28, 2009 by virtue of PLDT common shareholdings by intermediate holding companies, including PTIC and MPRI.

<sup>(4)</sup> Based on publicly available information, NTT Communications is a wholly-owned subsidiary of NTT. Based on a certification signed by a duly authorized officer of NTT Communications, Mr. Jun Sawada is authorized to execute for and on behalf of NTT Communications, endorsements, transfers, and other matters relating to the PLDT shares of common stock held by NTT Communications.

<sup>(5)</sup> The total shareholdings of NTT DoCoMo is 26,768,074 shares of PLDT common stock, of which 18,234,821 are owned on record by NTT DoCoMo, and 8,533,253 are shares of PLDT common stock underlying ADS representing 14.28% of the outstanding common stock of PLDT as at February 28, 2009. Based on publicly available information, NTT DoCoMo is a majority-owned and publicly traded subsidiary of NTT. Based on a certification signed by a duly authorized officer of NTT DoCoMo, Mr. Toshinari Kunieda or Mr. Matsuo Yamamoto, is authorized to execute for and on behalf of NTT DoCoMo, endorsements, transfers and other matters relating to the PLDT shares of common stock held by NTT DoCoMo.

<sup>(6)</sup> In publicly available reports filed by NTT Communications and NTT DoCoMo, it is stated that because of NTT's ownership of all the outstanding capital stock of NTT Communications and a majority of the common stock of NTT DoCoMo, NTT, NTT Communications and NTT DoCoMo may be considered to constitute a "group" within the meaning of Rule 18.1(5)(C) of the Amended Implementing Rules and Regulations of the Philippine Securities Regulation Code. Therefore, each of them may be deemed to have beneficial ownership of the 39,401,561 shares in aggregate held by NTT Communications and NTT DoCoMo, representing approximately 21% of the outstanding shares of common stock of PLDT as at February 28, 2009.

<sup>(7)</sup> In addition to the 5,024,788 shares owned on record by the SSS, SSS also beneficially owned 5,906,342 shares of PLDT common stock held of record by PCD as at February 28, 2009. The total beneficial shareholdings of SSS is 10,931,130 shares of PLDT common stock representing 5.83% of the outstanding common stock of PLDT as at February 28, 2009. Based on a resolution adopted by the Board of Directors of the SSS, Mr. Donald G. Dee, as Commissioner of the SSS, has been authorized to represent and vote the shares of PLDT common stock of SSS in the Annual Meeting of stockholders of PLDT.

<sup>(8)</sup> Registered owner of shares held by participants in the Philippine Depository and Trust Co., or PDTC, a private company organized to implement an automated book entry system of handling securities transactions in the Philippines. Under the PDTC procedures, when an issuer of a PDTC-eligible issue will hold a stockholders' meeting, the PDTC will execute a pro-forma proxy in favor of its participants for the total number of shares in their respective principal securities account as well as for the total number of shares in their client securities account. For the shares held in the principal securities account, the participant concerned is appointed as proxy with full voting rights and powers as registered owner of such shares. For the shares held in the client securities account, the participant concerned is appointed as proxy, with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by such clients. Based on available information, none of the owners of the PLDT common shares registered under the name of PCD owned more than 5% of PLDT's outstanding common stock as at February 28, 2009, except The Hongkong and Shanghai Banking Corp. Ltd.—Clients, which owned approximately 17.32% of PLDT's outstanding common stock as at February 28, 2009. PLDT has no knowledge if any beneficial owner of the shares under The Hongkong and Shanghai Banking Corp. Ltd.—Clients owned more than 5% of PLDT's outstanding common stock as at February 28, 2009.

The PCD account also includes 650,000 shares beneficially owned by the MPRI, 5,906,342 shares beneficially owned by the SSS and 12,461,130 shares beneficially owned by Capital Research Global Investors, or CRGI.

<sup>(9)</sup> Holds shares as nominee of JPMorgan Chase Bank, successor depository under the Common Stock Deposit Agreement, dated October 14, 1994, as amended on February 10, 2003, between JPMorgan Chase Bank and the holders of ADRs, evidencing ADSs, representing shares of common stock of PLDT (the "Deposit Agreement"). Under the Deposit Agreement, if the depository does not receive voting instruction from a holder of ADRs, such holder will be deemed to have instructed the depository to provide a discretionary proxy to a person designated by PLDT for the purpose of exercising the voting rights pertaining to the shares of common stock represented by such

holder of ADRs, except that no discretionary proxy will be given with respect to any matter as to which substantial opposition exists or which materially and adversely affects the rights of the holders of such ADRs.

This account also includes 2,636,940 shares of PLDT common stock underlying ADSs beneficially owned by CRGI and 8,533,253 shares of PLDT common stock underlying ADS beneficially owned by NTT DoCoMo.

<sup>(10)</sup> According to the Schedule 13G of CRGI filed with the U.S. SEC on February 17, 2009, CRGI, as an investment adviser, beneficially owned 15,098,070 shares of PLDT common stock. In a letter to PLDT dated March 13, 2009, CRGI confirmed that they still hold 15,098,070 shares of PLDT common stock, which includes 2,636,940 shares of PLDT common stock underlying ADSs and 12,461,130 shares of PLDT common stock held of record by PCD.

As at February 28, 2009, approximately 86.37% of the outstanding capital stock of PLDT was registered in the names of Philippine persons.

## Security Ownership of Directors and Officers

The following are the number of PLDT common and preferred shares owned or record and/or beneficially by the directors, Chief Executive Officer and other key officers of PLDT as at February 28, 2009:

Name of Record	Citizenship	Title of Class	Number of shares <sup>(1)</sup>	Amount of Holdings (Based on par value)	Percentage of Class
Manuel V. Pangilinan Chairman of the Board 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	221,450	Php1,107,250	0.118117
		Preferred	360	3,600	0.000051
Napoleon L. Nazareno Director President and Chief Executive Officer 26/F Smart Tower, Ayala Avenue, Makati City	Filipino	Common	13,927 <sup>(2)</sup>	69,635	0.007428
		Preferred	495	4,950	0.000070
Helen Y. Dee Director 3/F Grepalife Bldg. Sen. Gil Puyat Ave., Makati City	Filipino	Common	98	490	0.000052
		Preferred	180	1,800	0.000026
Ray C. Espinosa Director 5/F Locsin Bldg., Ayala Avenue cor. Makati Avenue, Makati City	Filipino	Common	16,243 <sup>(2)</sup>	81,215	0.008664
		Preferred	—	—	—
Takashi Ooi Director 14-1 Nishi-Shinbashi 2-Chome Minato-Ku Tokyo 105-0003 Japan	Japanese	Common	1	5	0.000001
		Preferred	—	—	—
Tatsu Kono Director 6/F Ramon Cojuangco Bldg. Makati Avenue, Makati City	Japanese	Common	100	500	0.000053
		Preferred	—	—	—
Fr. Bienvenido F. Nebres, S.J. Independent Director Ateneo de Manila University 2/F Xavier Hall, Loyola Heights, QC	Filipino	Common	2	10	0.000001
		Preferred	—	—	—
Donald G. Dee Director 12/F Union Bank Bldg. Ayala Avenue cor. Herrera Sts. Makati City	Filipino	Common	1	5	0.000001
		Preferred	640	6,400	0.000091

<u>Name of Record</u>	<u>Citizenship</u>	<u>Title of Class</u>	<u>Number of shares<sup>(1)</sup></u>	<u>Amount of Holdings</u>	<u>Percentage of Class</u>
Oscar S. Reyes Independent Director 139 Corporate Center Valero St., Salcedo Village Makati City	Filipino	Common Preferred	1 360	5 3,600	0.000001 0.000051
Albert F. del Rosario Director 15/F Chatham House, Valero St., cor. Herrera St., Makati City	Filipino	Common Preferred	140,005 <sup>(4)</sup> 2,100	700,025 21,000	0.074676 0.000298
Pedro E. Roxas Independent Director 7/F Cacho-Gonzales Bldg., 101 Aguirre St., Legaspi Village Makati City	Filipino	Common Preferred	1 540	5 5,400	0.000001 0.000077
Alfred V. Ty Independent Director 16/F GT Tower Ayala Avenue, Makati City	Filipino	Common Preferred	1 –	5 –	0.000001 –
Tony Tan Caktiong Director 10/F Jollibee Plaza Emerald Avenue, Ortigas Center Pasig City	Filipino	Common Preferred	1 50	5 500	0.000001 0.000007
Ma. Lourdes C. Rausa-Chan Corporate Secretary, Chief Governance Officer and Senior Vice President, Corporate Affairs and Legal Services 9/F PLDT-MGO Bldg., Legaspi St., cor. Dela Rosa St., Makati City	Filipino	Common Preferred	699 <sup>(2)</sup> 350	3,495 3,500	0.000373 0.000050
Anabelle L. Chua Treasurer and Senior Vice President, Corporate Finance and Treasury 26/F Smart Tower Ayala Avenue, Makati City	Filipino	Common Preferred	13,878 <sup>(2)</sup> –	69,390 –	0.007402 –
Rene G. Bañez Senior Vice President, Administration and Materials Management Group 6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	1 540	5 5,400	0.000001 0.000077
George N. Lim Senior Vice President, Business Transformation Office- Network Team 6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	5,356 <sup>(2)</sup> 360	26,780 3,600	0.002857 0.000051
Claro Carmelo P. Ramirez Consumer Affairs Group Senior Vice President Office of the President and CEO 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	11,500 –	57,500 –	0.006134 –

<u>Name of Record</u>	<u>Citizenship</u>	<u>Title of Class</u>	<u>Number of shares <sup>(1)</sup></u>	<u>Amount of Holdings</u>	<u>Percentage of Class</u>
Victorico P. Vargas Senior Vice President, Human Resources Group, Business Transformation Office 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	2,878 180	14,390 1,800	0.001535 0.000026
Alfredo S. Panlilio Senior Vice President, PLDT Global Corporation 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	4,531 –	22,655 –	0.002417 –
Ernesto R. Alberto Senior Vice President, Customer Sales and Marketing Group 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	4,100 –	20,500 –	0.002187 –
Menardo G. Jimenez, Jr. Senior Vice President, Business Transformation Office- Revenue Team 6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	22 –	110 –	0.000012 –
Jun R. Florencio Senior Vice President, Internal Audit and Fraud Risk Management 6/F PLDT-MGO Bldg., Legaspi St., cor. Dela Rosa St., Makati City	Filipino	Common Preferred	15 530	75 5,300	0.000008 0.000075
June Cheryl A. Cabal First Vice President Financial Reporting and Controllership 11/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	– –	– –	– –

- (1) As at December 31, 2008, under PLDT's ESOP, all of the options to purchase shares of common stock of key officers and directors listed in the table above had been exercised. No options have been granted to non-executive directors. All outstanding options were exercisable at an exercise price of Php814 per share and had an expiration date of December 10, 2009. All outstanding options were fully vested as at December 10, 2004.
- (2) Includes PLDT common shares that have been lodged with the Philippine Central Depository, Inc.
- (3) Includes PLDT common shares that have been lodged with Philippine Depository Trust Company and JP Morgan.
- (4) Out of 140,005 common shares, 15,000 common shares are under the name of Albert F. del Rosario and/or Margaret Gretchen del Rosario.

The aggregate number of shares of common and preferred stock owned directly by all key officers and directors as a group as at February 28, 2009 were 434,811 and 6,685, respectively, or 0.23% and less than 0.1% of PLDT's outstanding shares of common and preferred stock, respectively.

### **Change in Control**

There has been no change in control in respect of PLDT since the beginning of 2008. We are not aware of any existing or pending transaction which may result in such a change in control.

## **Item 12. Certain Relationships and Related Party Transactions**

### **Related Party Transactions**

For a detailed discussion of our material related party transactions, see *Note 22 –Related Party Transactions* to the accompanying audited consolidated financial statements in Item 7.

Except for the transactions discussed in *Note 22 – Related Party Transactions* to the accompanying audited consolidated financial statements in Item 7, there were no other material related party transactions during the last three financial years, nor are there any material transactions currently proposed between PLDT and any (i) any director, officer, direct or indirect owner of 10% or more of the outstanding shares in PLDT; (ii) any close family member of such director, officer or owner; (iii) associates of PLDT; (iv) enterprises controlling, controlled by or under common control with PLDT; or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any director, officer or owner of 10% or more of the outstanding shares in PLDT or any close family member of such director, key officer or owner, or collectively, the Related Parties.

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

## **PART IV – CORPORATE GOVERNANCE**

### **Item 13. Corporate Governance**

Our Corporate Governance Manual or Governance Manual, which was adopted and approved by our board of directors in September 2002, and was revised and amended on January 30, 2007, seeks to institutionalize the principles of good governance that our board of directors and management believe to be a necessary component of sound business management. It conforms with the requirements of the Code of Corporate Governance, or Philippine SEC Governance Code, that was promulgated by the SEC, under SEC Memorandum Circular No. 2, Series of 2002, dated April 5, 2002.

In compliance with the Philippine SEC Governance Code and consistent with the relevant provisions of the Securities Regulation Code and Corporation Code of the Philippines, our Governance Manual covers the following key areas:

1. The qualifications and grounds for disqualification for directorship;
2. The requirement that at least two or 20% of the members of our board of directors, whichever is lesser, must be independent directors and the standards/criteria for the determination of independent directors;
3. The duties and responsibilities of our board of directors and the individual directors;
4. Our board committees, specifically, the governance and nomination committee, audit committee and executive compensation committee, the composition and the principal duties and responsibilities of such committees;
5. The role of our chairman in ensuring compliance with the corporate governance principles;
6. The role of our president/chief executive officer in ensuring that our organizational and procedural controls are adequate and effective to ensure reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, rules, regulations and contracts;



7. The duties and responsibilities of our corporate secretary/assistant corporate secretary in terms of the support services that they need to provide our board in upholding sound corporate governance;
8. The duties and responsibilities of the head of our internal audit organization that would provide our board of directors, management and shareholders with reasonable assurance that our key organizational and procedural controls are appropriate, adequate, effective and reasonably complied with;
9. The functions of our independent auditors that would reasonably ensure an environment of sound corporate governance as reflected in our financial records and reports; the requirement that non-audit work of the independent auditors should not conflict with their function as independent auditors; the requirement to rotate, at least once every five years, the independent auditors or the lead partner assigned to handle the independent audit of our financial statements;
10. Our commitment to respect and promote shareholders' rights such as voting right, pre-emptive right, inspection right, dividend right, appraisal right, and right to receive information about the background, business experience, compensation and shareholdings of our directors and officers and their transactions with us;
11. The requirement to appoint a compliance officer and the duties and responsibilities of such compliance officer including the establishment of an evaluation system to determine and measure compliance with the provisions of our Governance Manual; and
12. The penalties for violations of our Governance Manual.

Our Code of Business Conduct and Ethics, or Code of Ethics, was adopted to strengthen the implementation of our Governance Manual. Approved by our Board on March 30, 2004 and subsequently updated on July 11, 2006, our Code of Ethics sets out our business principles and values, which aim to promote a culture of good corporate governance in our company. It provides standards that govern and guide all business relationships of our company, its directors, officers and employees, especially with respect to the following:

1. Compliance with applicable laws, rules and regulations;
2. Ethical handling of conflicts of interest, corporate opportunities and confidential information;
3. Protection and proper use of company assets;
4. Fair dealing with our employees, customers, service providers, suppliers, and competitors;
5. Compliance with our reporting and disclosure obligations to the relevant regulators and to investors;
6. Compliance with our disclosure and financial reporting controls and procedures;
7. Assessment and management of risks involved in our business endeavors; and
8. Adoption of international best practices of good corporate governance in the conduct of our business.

In addition, the following policies were adopted by our board of directors to provide specific guidelines on the provisions of the Code of Ethics: (a) the Conflict of Interest Policy, which was approved on October 24, 2005, ensures that work-related actions of our directors, officers, employees and consultants are based on sound business principles and judgment devoid of bias or partiality; (b) the

Policy on Gifts, Entertainment and Sponsored Travel, which was approved on January 31, 2006, provides safeguards so that the custom of giving gifts is handled in accordance with the principles of integrity, accountability, fairness and transparency; (c) the Supplier/Contractor Relations Policy, which was approved on January 31, 2006, ensures that our company upholds the highest professional standards in business practices and ethics in its dealings with suppliers and contractors in the procurement of goods and services; and (d) the Policy on Employee Disclosure on Violations of the Corporate Governance Rules, Questionable Accounting or Auditing Matters, and Offenses covered by PLDT's Table of Penalties (Expanded Whistleblowing Policy), which was approved on May 9, 2006, provides guidelines on handling employee complaints, protects whistleblowers from retaliation and ensures confidentiality and fairness in the handling of a disclosure or complaint. An Expanded Whistleblowing Hotline and other reporting facilities, such as a dedicated electronic mailbox, post office box, and facsimile transmission have been installed and are maintained. Any employee may submit a complaint or disclosure of the above nature to the Corporate Governance Office, or CGO, or the chief governance officer, verbally or in writing. The CGO then conducts a preliminary evaluation to determine the appropriate investigating unit to which the case shall be assigned for further action. The CGO monitors the cases reported and ensures the appropriate reporting to our audit committee, governance and nomination committee, or any other relevant committee or body on the results of the investigations and the prompt referrals of findings to the appropriate units concerned. Our committees on officer or employee discipline, as the case may be, are responsible for evaluating and approving the appropriate disciplinary action against erring officers and employees.

As part of the embedding of corporate governance standards in performance evaluation of our personnel, the Policy on Employee Qualification for Incentives and Rewards was amended in 2007 to include corporate governance policy violations as a disqualification factor. Further, in 2008, all executives and majority of officers submitted their extensive Conflict of Interest Initial Disclosure Form. These disclosures form part of the relevant employees' personal files.

All these policies and rules (collectively, the Corporate Governance, or CG, Rules) are periodically reviewed to ensure that they are appropriate for PLDT and are compliant with the requirements of the Philippine and U.S. SEC, NYSE and Hong Kong Stock Exchange Corporate Governance Rules, as may be applicable.

From 2005 to 2008, our subsidiaries and their respective subsidiaries have also adopted corporate governance rules and policies substantially similar in substance and form to our CG Rules, as well as appointed their respective corporate governance officers.

Further, we have communicated to our business partners, including suppliers, our commitment to, as well as expectations on, good corporate governance. To ensure that relations between our company and its business partners are imbued with our standards on good corporate governance, we have held supplier/contractor's briefings and have developed written corporate governance guidelines for suppliers and contractors, to which our suppliers and contractors are expected to consent in writing, thereby including their understanding and acceptance of these standards as indispensable in doing business with us.

The CG Education and Communication Program for 2008 sought to sustain the initiatives taken in 2007 and follows the embedding strategy of the CGO, through the translation of CG values into business process standards. There was a need to complete initiatives already started and also for a rekindling of awareness among all personnel. Attention was also given to the proven objectives of CG education and communication in the past which deal with strengthening ethical decision making skills

among our company officers, executives, and other key personnel and strengthening ethics and customer service orientation among identified key responsible business.

In the pursuit of these initiatives, we conducted various activities such as:

- training sessions and workshops based on concepts and modules developed by the CGO and facilitated by various professionals, both local and international, known in the field of corporate governance and ethics, namely: (1) Board Corporate Governance session on Current Governance Environment in the United States and Ethics and Tone at the Top, conducted on December 12, 2008. Facilitating the session was Ms. Suzanne Hopgood of the National Association of Corporate Directors (NACD) of Washington DC, USA; and (2) PLDT Group Officers' Corporate Governance Enhancement Session on the CG dimensions of the current global financial crisis, handled by Dr. Jesus P. Estanislao, Chairman of the Institute of Corporate Directors, or ICD, and the Stages of Corporate Moral Development, facilitated by Dr. Antonette Palma-Angeles, Director of the JB Fernandez Center for Ethics of the Ateneo de Manila University;
- re-development and implementation of an e-Learning Session on Conflict of Interest, which involved the translation of the initial e-Learning module into Filipino, using simple terms and providing examples. Roll out for all supervisors and rank-and-file employees in other departments continued in 2008;
- translation of the PLDT CG Primer from English to Filipino for better appreciation and observance of CG policies by all of our employees. The Primer has been uploaded into the PLDT website for easy access by employees;
- development and launch of the PLDT music video entitled *Huwag Kang Pasaway*. A joint project with the Human Resource Group, the video seeks to discourage violations of and promote voluntary compliance with CG policies. It was launched in June 27, 2008 and has been cascaded to all employees through their respective division heads;
- continuing issuance of periodic CG communication materials such as posters, Ripples monthly e-newsletter and weekly CG news summaries e-mail.

The gains and achievement outlined above were made possible through our corporate governance implementation structure that allocates responsibilities yet promotes dynamic cooperation in the three Es of Corporate Governance: Engineering, Education and Enforcement. It is a structure that facilitates the attainment of our CG goals within a framework that involves three development phases: compliance, competency, and character/culture. In succeeding years, we aim to achieve strong ethical corporate character or culture, thereby completing these three C's of our corporate governance.

In pursuing this commitment, our board of directors approved and adopted in 2006 its annual performance evaluation process. Using a self-rating questionnaire accomplished individually by our directors, the performance of our board of directors and its individual members in 2005, 2006 and 2007 were assessed, with gaps identified and next-step recommendations raised. With the guidance of the Governance and Nomination Committee, the next-steps were transformed into an action agenda for our board of directors, and its individual members, where applicable, to observe and accomplish.

Aside from the continuation and improvement of our various programs geared towards ethical culture-building and enabling ethical decision-making, we continue to participate in the Companies' Circle of the ICD which spearheaded the review of all corporate governance laws and rules, and provided suggestions to the Philippine SEC and PSE for the improvement of such laws to ensure easier and meaningful compliance with global best practices on good corporate governance. We have also

ensured that we, as well as the corporate governance officers of our subsidiaries, are kept abreast of the global developments in corporate governance by strengthening our ties and membership in the Ethics and Compliance Officer Association, the oldest and most respected association of ethics and compliance practitioners in the world.

We have also summarized on our website the differences between our corporate governance practices and those required of U.S. listed companies under NYSE Section 303A.11.

To access our Code of Ethics, Governance Manual or the differences between our corporate governance practices and those required of U.S. listed companies under NYSE Section 303A.11, please refer to:

[http://www.pldt.com.ph/NR/ronlyres/D691929D-50EB-4747-9DCE-FC614C97CECE/10146/pldtcorpgov\\_manual.pdf](http://www.pldt.com.ph/NR/ronlyres/D691929D-50EB-4747-9DCE-FC614C97CECE/10146/pldtcorpgov_manual.pdf)

[http://www.pldt.com.ph/NR/ronlyres/D691929D-50EB-4747-DCE-FC614C97CECE/10145/PLDT\\_Code\\_of\\_Business\\_Conduct\\_and\\_Ethics.pdf](http://www.pldt.com.ph/NR/ronlyres/D691929D-50EB-4747-DCE-FC614C97CECE/10145/PLDT_Code_of_Business_Conduct_and_Ethics.pdf)

<http://www.pldt.com.ph/NR/ronlyres/43AE788A-1ADE-4F8D-B279-652A4D4C5DF5/9036/pltdisclosure.pdf>

#### *Chief Governance Officer*

Our chief governance officer is responsible for monitoring compliance with, interpreting and deciding any issues arising from, investigating and determining violations and recommending the disciplinary actions against violators of our Governance Manual and Code of Ethics.

On January 22, 2009, our chief governance officer, submitted to the Philippine SEC and PSE our annual certification confirming, among others, that:

- a. PLDT's Governance Manual, as adopted on September 24, 2002 and amended on January 30, 2007, conforms with the provisions of the Manual on Corporate Governance (Model Corporation), as prescribed by the Philippine SEC Memorandum Circular No. 2, Series of 2002, as well as adopted the leading practices and principles on good corporate governance;
- b. PLDT has not deviated from the provisions of the Governance Manual and has complied therewith and with certain other corporate governance standards set out in the Sarbanes Oxley Act of 2002, Section 303A of the NYSE Listing Standards and implementing rules issued by the U.S. SEC and NYSE.

The said certification was based on the annual evaluation conducted by our president and chief executive officer, treasurer and chief financial officer and chief governance officer of our Company's compliance with the Governance Manual. In making such evaluation, said officers used our board-approved corporate governance self-rating form which has been patterned after a similar form that was issued by the Philippine SEC under SEC Memorandum Circular No. 5, Series of 2003, dated April 3, 2003.

### *Board and Board Committees*

We have maintained our board's independence from management through the separation of the posts of the board chairman and president and chief executive officer. Each position has distinct and separate duties and responsibilities as contained in our By-Laws and Governance Manual. In addition, we have four independent directors, namely Rev. Fr. Bienvenido F. Nebres, S.J. and Messrs. Oscar S. Reyes, Pedro E. Roxas, and Alfred V. Ty.

To assist our board in fulfilling its duties and functions, we have four board committees, namely the governance and nomination, audit, executive compensation and technology strategy committees. Each committee has a board-approved written charter that provides for such committee's composition, membership qualifications, functions and responsibilities, conduct of meetings, and reporting procedure to the board. See Item 9. "Directors and Officers — Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees" for further details

### *Internal Audit Organization*

We have an internal audit organization that determines whether our network or risk management, control and governance processes are adequate and functioning to ensure that:

1. Risks are appropriately identified and managed;
2. Significant financial, managerial, and operating information are accurate, reliable and timely;
3. Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
4. Resources are acquired economically, used efficiently and adequately protected;
5. Programs, plans and objectives are achieved;
6. Quality and continuous improvement are fostered in our control process;
7. Significant legislative or regulatory issues impacting us are recognized and addressed appropriately; and
8. Interaction with various governance groups occurs as needed.

To ensure independence, the head of our internal audit organization reports functionally to our audit committee and administratively to our president and chief executive officer. He is accountable to management and our audit committee in the discharge of his duties and is required to:

1. Provide annually an assessment on the adequacy and effectiveness of our processes for controlling our activities and managing our risks;
2. Report significant issues related to the processes of controlling our activities, including potential improvements to those processes, and provide information concerning such issues;
3. Periodically provide information on the status and results of the annual audit plan and the sufficiency of our internal audit organization's resources; and
4. Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

Our internal audit organization has a charter that has been approved by our audit committee. It seeks to comply with the Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors in the discharge of its scope of work and responsibilities.

The public may obtain information on our Code of Ethics, Governance Manual and Charters of our Board Committees through our website. We undertake to provide a copy, without charge, to any person requesting for a copy of any, or both, of the Code of Ethics and Governance Manual from our chief governance officer, Atty. Ma. Lourdes C. Rausa-Chan, who can be reached at e-mail address [lrchan@pldt.com.ph](mailto:lrchan@pldt.com.ph) or telephone number +632-816-8556. We also maintain a website at [www.pldt.com.ph](http://www.pldt.com.ph) on which reports filed by us and other information may be accessed.

#### *Audit Committee Report for 2008*

Further to our compliance with applicable corporate governance laws and rules, our audit committee confirmed in its report for 2008 that:

- Each voting member of the audit committee is an independent director as determined by the board of directors;
- In the performance of their oversight responsibilities, the audit committee has reviewed and discussed our audited financial statements as at and for the year ended December 31, 2008 with management, which has the primary responsibility for the financial statements, and with SGV & Co., our independent auditor, who is responsible for expressing an opinion on the conformity of our audited financial statements with generally accepted accounting principles;
- The audit committee has discussed with SGV & Co. the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees) as modified or supplemented;
- The audit committee has received written disclosures and the letter from SGV & Co. required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with SGV & Co. its independence from the PLDT Group and the PLDT Group's management;
- The audit committee likewise discussed with our internal audit group and SGV & Co. the overall scope and plans for their respective audits. The audit committee also met with our internal audit group and representatives of SGV & Co. to discuss the results of their examinations, their evaluations of our internal controls and the overall quality of our financial reporting;
- Based on the reviews and discussions referred to above, in reliance on management and SGV & Co. and subject to the limitations of the audit committee's role, the audit committee recommended to our board of directors and our board has approved, the inclusion of our financial statements as at and for the year ended December 31, 2008 in our Annual Report to the Stockholders and to the Philippine SEC and U.S. SEC on Form 17-A and Form 20-F, respectively; and
- Based on a review of SGV & Co.'s performance and qualifications, including consideration of management's recommendation, the audit committee approved the appointment of SGV & Co. as our independent auditor.

#### ***Enterprise Risk Management***

Established in April 2006, The PLDT Group's group-wide enterprise risk management framework has strengthened the Group's risk management approach by establishing an Enterprise Risk

Management Committee (ERMC). The ERMC acts as the monitoring body for the individual risk management activities of the different units within the PLDT Group. As the strategic body responsible for developing and managing a comprehensive integrated risk management plan, the ERMC has the responsibility of responding to externally imposed regulatory guidelines concerning risk identification, disclosure, management, and monitoring. The ERMC is also mandated to advise the appropriate authorities of the PLDT Group on risk concerns pertaining to any of the companies within the PLDT Group.

For 2008, the ERMC chose to focus on specific projects instead of the general survey approach adopted in previous years. Based on data gathered from earlier surveys, the ERMC identified the following key risk areas:

- Financial risks
- Revenue assurance and leakage minimization for the Fixed Line business
- IT Systems upgrades
- International business
- ePLDT

In addition, risk owners were required to quantify the financial impact of their pertinent risk areas. This quantification represents an enhancement to the ERM process, taking risk assessment beyond mere identification and ranking.

The ERMC also looked at potential short-term issues arising from the global financial turmoil and the Group's ability to address these. In particular,

IDENTIFIED RISK	PLDT GROUP STATUS
Reduced liquidity; limited access to funding	PLDT/Smart maximizing available sources of funds from banks and Export Credit Authorities
Reduced operating cash flows	PLDT cash flows remain robust
Difficult and expensive access to insurance	All insurance policies have been negotiated and in place till July 31, 2009
Higher rate of doubtful receivables	No discernible increase in receivables
Accelerated cost reduction programs and revision of business plans	We continue to manage our operating expenses; Capital expenditures remain scalable with priority on investments that provide opportunities for growth
Accelerated consolidation of sector	We continue to watch for acquisition opportunities that fit into our strategic thrusts
Reduced valuations	No financing undertakings/ ratio linked to external valuations such as market capitalization
Higher likelihood of goodwill and other intangibles	We are in constant dialogue with our auditors on possible impairment issues

All the above were accordingly presented to PLDT's Audit Committee and to the PLDT Board during the annual budget presentation.

## PART V – EXHIBITS AND SCHEDULES

### Item 14. Exhibits and Reports on SEC Form 17-C

#### Exhibits

The exhibits listed in the accompanying Index to Exhibits on page 141 are filed or incorporated as part of this annual report.

## Reports on SEC Form 17-C (Current Reports)

We reported the following items on SEC Form 17-C during the last two quarters of 2008:

Items Reported	Date Filed
1. Buyback of common shares	July 1, 2008
2. Buyback of common shares	July 2, 2008
3. Reply to a letter of PSE requesting clarification/confirmation of a news article entitled "PLDT denies Salim group selling to Li" published in the July 2, 2008 issue of <i>The Business Mirror</i>	July 3, 2008
4. Buyback of common shares	July 3, 2008
5. Buyback of common shares	July 4, 2008
6. Buyback of common shares	July 7, 2008
7. Reply to a letter of PSE requesting clarification/confirmation on a news article entitled "PLDT mobile subscribers up by three million, but slowdown seen" published in the July 7, 2008 issue of <i>The Business Mirror</i>	July 8, 2008
8. (a) Resignation of Ma. Lourdes C. Rausa-Chan as director (b) election of Tan Caktiong as director (c) Cash dividend declaration for Series IV, A, I, R, W, AA, and BB	July 8, 2008
9. Buyback of common shares	July 8, 2008
10. Buyback of common shares	July 9, 2008
11. Buyback of common shares	July 10, 2008
12. Buyback of common shares	July 14, 2008
13. Buyback of common shares	July 15, 2008
14. Buyback of common shares	July 16, 2008
15. Teleconference on August 5, 2008 re: Company's financial and operating results as at June 30, 2008	July 24, 2008
16. (a) Appointment of Joseph Homer A. Macapagal as a vice president (b) Resignation of Richard Ferrer effective August 15, 2008 (c) Cash dividend declaration – Common, Series B, F, Q, V and Z 10% Cumulative Convertible Preferred Stock	August 5, 2008
17. Unaudited financial statements as at June 30, 2008	August 5, 2008
18. PLDT's Second Share Buyback Program	August 5, 2008
19. Presentation materials for the teleconference re: First Half 2008 financial and operating results	August 5, 2008
20. Press release entitled "SubicTel to offer cutting-edge services as it changes company name"	August 12, 2008
21. Cash dividend declaration – Series V and VI Convertible Preferred Stock and Series E, K, O and U	August 26, 2008
22. Reply to a letter of PSE requesting clarification/confirmation of a news article entitled "PLDT to spend big bucks on NGN rollout" published in the September 1, 2008 issue of <i>The Manila Times</i>	September 1, 2008
23. Press releases issued by Blue Ocean Wireless and NTT DoCoMo, Inc.	September 11, 2008
24. Buyback of common shares	September 15, 2008
25. Buyback of common shares	September 16, 2008
26. Signing of various agreements between PLDT, Mabuhay Satellite Corporation and ProtoStar, with accompanying press release entitled "PLDT/Mabuhay and ProtoStar agree to collaborate on Expanded Satellite Services"	September 17, 2008
27. Buyback of common shares	September 18, 2008
28. Reply to a letter of PSE requesting clarification/confirmation of a news article entitled "Smart not exempted from local taxes, Supreme Court rules" published in the September 18, 2008 issue of the <i>Business World</i>	September 19, 2008
29. Buyback of common shares	September 23, 2008
30. Press release entitled "Smart honored at UN ceremonies in New York; Philippine telco wins global award"	September 25, 2008
31. Press release entitled "PLDT Global partners with Hutchison in Italy"	September 26, 2008
32. Press release entitled "PLDT offers free automated information service"	September 30, 2008
33. (a) Resignation of Ms. Corazon de la Paz-Bernardo as director (b) Election of Mr. Donald G. Dee as director (c) Cash dividend declaration – Series C, D, J, T and X 10% Cumulative Convertible Preferred Stock	September 30, 2008
34. Buyback of common shares	September 30, 2008
35. Buyback of common shares	October 3, 2008
36. Buyback of common shares	October 6, 2008
37. Buyback of common shares	October 7, 2008
38. Press release issued by Fitch Ratings entitled "Fitch Affirms PLDT's Ratings"	October 8, 2008
39. Buyback of common shares	October 8, 2008
40. Buyback of common shares	October 9, 2008
41. Buyback of common shares	October 10, 2008
42. Buyback of common shares	October 13, 2008
43. Buyback of common shares	October 14, 2008
44. Buyback of common shares	October 15, 2008
45. Buyback of common shares	October 16, 2008
46. Buyback of common shares	October 17, 2008
47. Teleconference on November 4, 2008 re: Company's financial and operating results as at September 30, 2008	October 20, 2008
48. Reply to a letter of PSE requesting clarification/confirmation of a news article entitled "PLDT fixed line service revenues up 5% in Jan-Sept" published in the October 20, 2008 issue of <i>The Philippine Star</i>	October 21, 2008
49. Update on the Teleconference on November 4, 2008 re: Company's financial and operating results as at September 30, 2008	October 28, 2008
50. PLDT's Unaudited financial condition and results of operations for the Nine Months Ended September 30, 2008	November 4, 2008



Items Reported	Date Filed
51. Cash dividend declaration – Series IV Convertible Preferred Stock and Series G, N, P and S 10% Cumulative Convertible Preferred Stock	November 4, 2008
52. Presentation materials for the briefing on the third quarter 2008 Results	November 4, 2008
53. Buyback of common shares	November 7, 2008
54. Dividend policy statement of PLDT	November 18, 2008
55. (a) Cash dividend declaration – Series V and VI Convertible Preferred Stock and Series H, L, M, and Y 10% Cumulative Convertible Preferred Stock	
(b) Approval of changes in the second buyback program	December 9, 2008
56. Reply to a letter of PSE requesting clarification/confirmation of a news article entitled “PLDT can’t go into advertising – Santiago” published in the December 9, 2008 issue of <i>The Philippine Star</i>	December 10, 2008
57. Reply to a letter of PSE requesting clarification/confirmation of a news article entitled “Smart taps peso market to raise fund for next year’s capex, issue oversubscribed” published in the December 12, 2008 issue of <i>The Manila Times</i>	December 12, 2008



SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code of the Philippines, this annual report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati on March 31, 2009

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
Registrant

By:

Signature of Napoleon L. Nazareno
NAPOLEON L. NAZARENO
Principal Executive Officer and
Principal Operating Officer

Signature of Ma. Lourdes C. Rausa-Chan
MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

Signature of Anabelle Lim-Chua
ANABELLE LIM-CHUA
Principal Financial Officer and Treasurer

Signature of June Cheryl A. Cabal
JUNE CHERYL A. CABAL
Principal Accounting Officer and Controller

APR 02 2009

SUBSCRIBED AND SWORN to before me this \_\_\_ day of March 2009, affiants exhibiting to me their Passports, as follows:

Table with 4 columns: Name, Passport No., Date of Expiry, Place of Issue. Rows include Napoleon L. Nazareno, Ma. Lourdes C. Rausa-Chan, Anabelle Lim-Chua, and June Cheryl A. Cabal.

Doc. No. 126;
Page No. 24;
Book No. I;
Series of 2009

Notary Public
Signature of Notary
ADRIAN L. ALBERTO
Notary Public for the City of Makati
Until December 31, 2010
Appointment No. 85-25
Roll of Attorneys No. 3983-4
RFP License Roll No. 82388 - May 3, 2001
PTR No. 1678317 - 01/13/88 Makati City
3F INGO Bldg. Legaspi St.
Legaspi Village, Makati City NCR

# PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

## SEC FORM 17-A

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\* These schedules have been omitted because they are either not required, not applicable or the information required to be presented is included in PLDT's consolidated financial statements or the notes to consolidated financial statements.

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

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\*These exhibits are either not applicable to PLDT or require no answer.

\*\*Previously filed on SEC Form 17-C on February 26, 2003.

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

**SEC FORM 17-A**

**EXHIBIT 18 – MAJORITY-OWNED  
SUBSIDIARIES OF THE REGISTRANT**

Name of Subsidiary	Place of Incorporation	Principal Activity	Percentage of Ownership	
			Direct	Indirect
<b>Wireless</b>				
Smart	Philippines	Cellular mobile services	100.0	-
Smart Broadband, Inc.	Philippines	Internet broadband distribution	-	100.0
SmartConnect Holdings Pte. Ltd.	Singapore	Investment company	-	100.0
I-Contacts Corporation	Philippines	Customer interaction solutions	-	100.0
Wolfpac Mobile, Inc.	Philippines	Mobile applications development and services	-	100.0
SmartConnect Global Pte. Ltd.	Singapore	International trade of satellites and GSM enabled global telecommunications	-	100.0
Wireless Card, Inc.	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards	-	100.0
Smarthub, Incorporated	Philippines	Development and sale of software, maintenance and support services	-	100.0
Smart Money Holdings, Inc.	Cayman Islands	Investment company	-	100.0
Smart Money, Inc.	Cayman Islands	Mobile commerce solutions marketing	-	100.0
Telecoms Solutions, Inc.	Mauritius	Mobile commerce platforms	-	100.0
Far East Capital Limited	Cayman Islands	Cost effective offshore financing and risk management activities for Smart	-	100.0
PH Communications Holdings Corporation	Philippines	Investment company	-	100.0
Francom Holdings, Inc.	Philippines	Investment company	-	100.0
Connectivity Unlimited Resource Enterprise	Philippines	Cellular mobile services	-	100.0
Airborne Access Corporation	Philippines	Wireless Internet services	-	99.4
Pilipino Telephone Corporation	Philippines	Cellular mobile services	-	92.5
3rd Brand Pte. Ltd.	Singapore	Solutions and systems integration services	-	85.0
Telesat, Inc.	Philippines	Satellite communications services	100.0	-
ACeS Philippines Cellular Satellite Corporation	Philippines	Satellite information and messaging services	88.5	11.5
Mabuhay Satellite Corporation	Philippines	Satellite communications services	67.0	-
<b>Fixed Line</b>				
PLDT Clark Telecom, Inc.	Philippines	Telecommunications services	100.0	-
PLDT Subic Telecom, Inc.	Philippines	Telecommunications services	100.0	-
PLDT Global Corporation	British Virgin Islands	Telecommunications services	100.0	-
Smart-NTT Multimedia, Inc.	Philippines	Data and network services	100.0	-
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	97.5	-
Bonifacio Communications Corporation	Philippines	Telecommunications, infrastructure and related value-added services	75.0	-
<b>Information and Communications Technology</b>				
ePLDT, Inc.	Philippines	Information and communications infrastructure for Internet-based services, e-commerce, customer interaction solutions and IT-related services	100.0	-
SPI Technologies, Inc. and Subsidiaries,	Philippines	Knowledge processing solutions	-	100.0
ePLDT Ventus, Inc.	Philippines	Customer interaction solutions	-	100.0
Vocativ Systems, Inc.	Philippines	Customer interaction solutions	-	100.0
Parlance Systems, Inc.	Philippines	Customer interaction solutions	-	100.0
Infocom Technologies, Inc.	Philippines	Internet access services	-	99.6
Digital Paradise Thailand	Thailand	Internet access services	-	87.5
netGames, Inc.	Philippines	Publisher of online games	-	80.0
Digital Paradise, Inc.	Philippines	Internet access services	-	75.0
Level Up! (Philippines), Inc.	Philippines	Publisher of online games	-	60.0



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BOA/PRC Reg. No. 0001  
SEC Accreditation No. 0012-FR-1

**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
Philippine Long Distance Telephone Company  
Ramon Cojuangco Building  
Makati Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine Long Distance Telephone Company and Subsidiaries included in this Form 17-A and have issued our report thereon dated March 3, 2009. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68.1 and SEC Memorandum Circular No. 11, Series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respect the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

  
Marydell C. Miguel  
Partner  
CPA Certificate No. 65556  
SEC Accreditation No. 0087-AR-1  
Tax Identification No. 102-092-270  
PTR No. 1566445, January 5, 2009, Makati City

March 3, 2009



A member firm of Ernst & Young Global Limited

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

**Schedule A. Marketable Securities (Current Marketable Equity Securities and Other Short-term Cash Investments)**

**December 31, 2008**

<b>Name of Issuing Entity and Association of Each Issue</b>	<b>Principal Amount of Bonds and Notes</b>	<b>Amount Shown in the Balance Sheet</b>	<b>Valued Based on Market Quotation at Balance Sheet Date</b>	<b>Income Received and Accrued</b>
(In Millions)				
Government Securities <sup>(1)</sup>	Php1,656	Php1,656	Php1,656	Php35
Short-term Investments <sup>(2)</sup>	6,670	6,670	6,670	510

(1) See Note 13 – *Investment in Debt Securities* to the accompanying audited consolidated financial statements in Item 7.

(2) Pertains to money market placements, which are highly liquid with maturities of more than three months but less than one year from date of acquisition.

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

**Schedule C. Non-current Marketable Equity Securities, Other Long-term Investments and Other Investments**

**December 31, 2008**

Name of Issuing Entity and Description of Investment	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE		Dividends Received/Accrued from Investments Not Accounted for by the Equity Method
	Number of Shares	Amount	Equity in Earnings (Losses) of Investees for the Period	Others	Impairment Charge	Others	Number of Shares	Amount	
(In Millions)									
<b>Investment in shares of stock<sup>(1)</sup></b>									
BOW		Php724	(Php119)	Php-	Php-	Php-		Php605	Php-
Philweb		592	6	-	-	-	-	598	-
ePDS		33	12	-	-	-	-	45	-
Bayantrade		-	-	-	-	-	-	-	-
PLDT Italy S.r.l.		-	(75)	1	-	-	-	(74)	-
Others		2	-	-	-	(2)	-	-	-
		<b>Php1,351</b>	<b>(Php176)</b>	<b>Php1</b>	<b>Php-</b>	<b>(Php2)</b>	<b>-</b>	<b>Php1,174</b>	<b>Php-</b>
<b>Investment in debt securities<sup>(2)</sup></b>									
National Power Corporation Zero Coupon Bonds		Php273	Php-	Php19	Php-	Php-	-	Php292	Php19
Republic of the Philippines Credit Linked Notes		-	-	205	-	(12)	-	193	(12)
Rizal Commercial Banking Corporation Notes		-	-	150	-	-	-	150	7
		<b>Php273</b>	<b>Php-</b>	<b>Php374</b>	<b>Php-</b>	<b>(Php12)</b>	<b>-</b>	<b>Php635</b>	<b>Php14</b>

(1) See Note 9 – Investments in Associates and Joint Ventures to the accompanying audited financial statements in Item 7.

(2) See Note 13 – Investment in Debt Securities to the accompanying audited financial statements in Item 7.



**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**  
**Schedule E. Goodwill and Intangible Assets**  
**December 31, 2008**

<b>Description</b>	<b>Beginning Balance</b>	<b>Additions At Cost</b>	<b>Charged to Cost and Expenses*</b>	<b>Charged to Other Accounts</b>	<b>Other Changes Additions (Deductions)</b>	<b>Ending Balance**</b>
<b>(In Millions)</b>						
Intangible Assets						
Customer list	Php1,102	Php-	(Php357)	Php157	Php-	Php902
Spectrum	937	-	(80)	-	-	857
Technology application	296	83	(346)	1	-	34
Licenses	136	-	(18)	-	49	167
	<u>2,471</u>	<u>83</u>	<u>(801)</u>	<u>158</u>	<u>49</u>	<u>1,960</u>
Goodwill	9,250	261	(2,026)	1,168	(163)	8,490
	<b>Php11,721</b>	<b>Php344</b>	<b>(Php2,827)</b>	<b>Php1,326</b>	<b>(Php114)</b>	<b>Php10,450</b>

\* Represents amortization of intangible assets and impairment.

\*\* See Note 11 –Goodwill and Intangible Assets to the accompanying audited consolidated financial statements in Item 7.

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

**Schedule F. Interest-bearing Financial Liabilities**

**December 31, 2008**

Name of Issuer and Type of Obligation	Amount Authorized by Indenture	Amount shown as Current	Amount shown as Long- term
		(In Millions)	
<b>Term Loans</b>			
BPI US\$50.0M	Php2,382	Php280	Php2,102
ING Bank Phase 5A & B – US\$100M	1,429	953	476
Japan-PNB Leasing and Finance Corporation	4	3	1
Kreditanstalt Fur Wiederaufbau F2949 - US\$25M	165	119	46
Kreditanstalt Fur Wiederaufbau F3202 - US\$0.974M	7	5	2
Kreditanstalt Fur Wiederaufbau F3205 - US\$12.606M	30	30	–
Kreditanstalt Fur Wiederaufbau F3224 - US\$25.0M	218	119	99
Kreditanstalt Fur Wiederaufbau 9871 - US\$32.999M	642	393	249
Kreditanstalt Fur Wiederaufbau 9872 -US\$115.970M	2,478	1,382	1,096
Finnish Export Credit Plc – Phase 7 US\$104M	991	991	–
Finnish Export Credit Plc – Phase 8 US\$70M	1,393	696	697
Finnish Export Credit Plc – Phase 9 US\$44.2M	1,264	421	843
2014 Loan Facility – Metropolitan Bank and Trust Company	6,508	–	6,508
2014 Loan Facility – Marubeni Corporation	6,840	–	6,840
Nordea Bank AB –US\$22M Facility	394	79	315
Philam Bond Fund, Inc. Php20M	20	–	20
The Philippine American Life & General Insurance Co. Php400M	400	–	400
Land Bank of the Philippines Php2.4B	500	100	400
Nordic Investment Bank – US\$30M	858	286	572
Metropolitan Bank and Trust company–Dollar Loan Facility – US\$50M	2,117	529	1,588
Metropolitan Bank and Trust company–Peso Loan Facility – Php2.5B	1,667	556	1,111
Metropolitan Bank and Trust company–Peso Loan Facility – Php2.5B	2,500	–	2,500
Norddeutsche Landesbank Girozentrale Singapore Branch – US\$100M	4,288	953	3,335
Norddeutsche Landesbank Girozentrale Singapore Branch – US\$50M	2,144	476	1,668
Philippine National Bank – Php2B	500	29	471
Union Bank of the Philippines – Php3B	500	56	444
Other Term Loans	634	634	–
Unamortized Debt Discount	(4,129)	(44)	(4,085)
<b>Total Term Loans</b>	<b>36,744</b>	<b>9,046</b>	<b>27,698</b>

Name of Issuer and Type of Obligation	Amount Authorized by Indenture	Amount shown as Current	Amount shown as Long- term
<b>Fixed Rates Notes</b>		<b>(In Millions)</b>	
Deutsche Bank - US\$300.0M Notes Due 2017 (8.35%)	Php14,055	Php-	Php14,055
Deutsche Bank - US\$175.0M Notes Due 2009 (10.5%)	5,422	5,422	-
The Bank of New York - US\$250.0M Notes Due 2012 (11.375%)	7,584	-	7,584
Metropolitan Bank and Trust Company PESO FXCN – A – Php3.8B	3,800	-	3,800
Metropolitan Bank and Trust Company PESO FXCN – B – Php1.2B	1,200	12	1,188
Metropolitan Bank and Trust Company PESO FXCN –Php5B	5,000	50	4,950
Unamortized Debt Discount	(447)	(71)	(376)
<b>Total Fixed Rate Notes</b>	<b>36,614</b>	<b>5,413</b>	<b>31,201</b>
<b>Total Long-term Debt</b>	<b>73,358</b>	<b>14,459</b>	<b>58,899</b>
Obligations under Finance Lease	70	59	11
Preferred Stock Subject to Mandatory Redemption	9	9	-
Notes Payable	553	553	-
<b>Total</b>	<b>Php73,990</b>	<b>Php15,080</b>	<b>Php58,910</b>

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**  
**Schedule I. Capital Stock**  
**December 31, 2008**

<b>Title of Issue</b>	<b>Number of Shares Authorized</b>	<b>Number of Shares issued and Outstanding</b>	<b>Number of Shares Reserved For Options, Warrants, Conversion and Other Rights</b>	<b>Number of Shares Held By Related Parties</b>	<b>Directors and Officers</b>	<b>Others</b>
Preferred Stock (Php10 par value)	<u>822</u>		<u>–</u>	<u>36</u>	<u>–</u>	<u>–</u>
Cumulative Convertible Series A to EE		405				
Cumulative Nonconvertible Series IV		<u>36</u>				
Common Stock (Php5 par value)	<u>234</u>	<u>187</u>	<u>2</u>	<u>–</u>	<u>–</u>	<u>–</u>

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**  
**Schedule J. Retained Earnings Available for Dividends**  
**December 31, 2008**

	<b>Amount (In Millions)</b>
Unappropriated Retained Earnings, as adjusted to available for dividends distribution, beginning	Php34,578
Add: Net income actually earned/realized during the year	
Net income during the year closed to retained earnings	32,490
Less: Non-actual/unrealized income, net of tax	
Fair value adjustment (mark-to-market gains)	(2,692)
Fair value adjustment of investment property resulting to gain	(185)
Less: Cash dividends deducted in retained earnings	(37,034)
	_____
Total Unappropriated Retained Earnings Available for Dividend, End	Php27,157

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES**

**Annex A. Aging of Accounts Receivable as at December 31, 2008**

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	91 Days and Over
			(In Millions)		
Corporate subscribers	Php9,188	Php1,432	Php1,494	Php745	Php5,517
Retail subscribers	8,993	2,558	1,167	308	4,960
Foreign administrations	5,916	1,959	1,683	860	1,414
Domestic carriers	877	128	89	98	562
Dealers, agents and others	3,271	2,711	48	9	503
Total	Php28,245	Php8,788	Php4,481	Php2,020	Php12,956
Less: allowance for doubtful accounts	12,336				
<b>Total Receivables – net</b>		<b><u>Php15,909*</u></b>			

\* See Note 14 –Trade and Other Receivables to the accompanying audited consolidated financial statements in Item 7.