

SEC Number **PW-55**

File Number

**PHILIPPINE LONG DISTANCE
TELEPHONE COMPANY**

(Company's Full Name)

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

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

March 31, 2008

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

May 6, 2008

Securities & Exchange Commission
Money Market Operations Department
SEC Building, EDSA
Mandaluyong City

Attention: Director Justina Callangan
Corporations Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith five (5) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying audited financial statements of the Company as at and for the period ended March 31, 2008.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY



MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

P W - 5 5
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

T E L E P H O N E C O M P A N Y
(Company's Full Name)

R A M O N C O J U A N G C O B L D G .

M A K A T I A V E . M A K A T I C I T Y
(Business Address: No. Street City/Town/Province)

JUNE CHERYL A. CABAL-FURIGAY
Contact Person

816-8534
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

SEC FORM 17-Q
FORM TYPE

0 6 Every 2nd Tuesday
Month Day
Annual Meeting

C F D
Dept. Requiring this Doc.

N/A
Amended Articles
Number/Section

2,184,839
As of March 31, 2008
Total No. of Stockholders

Total Amount of Borrowings
N/A
Domestic

N/A
Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended March 31, 2008
2. SEC Identification Number PW-55
3. BIR Tax Identification No. 000-488-793
4. Philippine Long Distance Telephone Company
Exact name of registrant as specified in its charter
5. Republic of the Philippines
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: _____ (SEC Use Only)
7. Ramon Cojuangco Building, Makati Avenue, Makati City
Address of registrant's principal office 0721
Postal Code
8. (632) 816-8556
Registrant's telephone number, including area code
9. Not Applicable
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class Number of Shares of Common Stock Outstanding

Common Capital Stock, Php5 par value 188,895,600 shares as of March 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 SRC during the preceding ten months (or for such shorter period that the registrant was required to file such reports):

Yes [X] No []

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

Yes [X] No []

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Our consolidated financial statements as at March 31, 2008 (unaudited) and December 31, 2007 (audited) and for the three months ended March 31, 2008 and 2007 (unaudited) and related notes (pages F-1 to F-93) are filed as part of this report on Form 17-Q.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and the related notes. Our unaudited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with Philippine Financial Reporting Standards, which differ in certain significant respects from International Financial Reporting Standards and generally accepted accounting principles in the United States.

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "pesos," "Philippine pesos" or "Php" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US\$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "¥" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php41.756 to US\$1.00, the volume weighted average exchange rate at March 31, 2008 quoted through the Philippine Dealing System.

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

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

Financial Highlights and Key Performance Indicators

	<u>March 31,</u>	<u>December 31,</u>	<u>Increase (Decrease)</u>	
	<u>2008</u>	<u>2007</u>	<u>Amount</u>	<u>%</u>
(in millions, except for operational data, exchange rates and earnings per common share)	(Unaudited)	(Audited)		
Consolidated Balance Sheets				
Total assets	Php253,496	Php240,158	Php13,338	6
Property, plant and equipment – net	156,112	159,414	(3,302)	(2)
Cash and cash equivalents and short-term investments	50,891	30,862	20,029	65
Total equity	99,339	112,511	(13,172)	(12)
Notes payable and long-term debt	63,499	60,640	2,859	5
Net debt ⁽¹⁾ to equity ratio	0.13x	0.26x	–	–
	<u>Three Months Ended March 31,</u>		<u>Increase (Decrease)</u>	
	<u>2008</u>	<u>2007⁽²⁾</u>	<u>Amount</u>	<u>%</u>
		(Unaudited)		
Consolidated Statements of Income				
Revenues and other income	Php37,899	Php34,816	Php3,083	9
Expenses	21,732	21,446	286	1
Income before income tax	16,167	13,370	2,797	21
Net income attributable to equity holders of PLDT	10,446	8,614	1,832	21
Pre-tax income margin	43%	38%	–	–
Net income margin	28%	25%	–	–
Earnings per common share				
Basic	54.71	45.08	9.63	21
Diluted	54.71	44.99	9.72	22
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	Php22,169	Php25,189	(Php3,020)	(12)
Net cash used in investing activities	12,919	13,667	(748)	(5)
<i>Capital expenditures</i>	3,051	5,937	(2,886)	(49)
Net cash used in financing activities	159	6,122	(5,963)	(97)
Operational Data				
Number of cellular subscribers	31,575,959	25,483,459	6,092,500	24
Number of fixed line subscribers	1,763,602	1,847,084	(83,482)	(5)
Number of broadband subscribers	661,053	327,703	333,350	102
<i>Fixed Line</i>	299,554	152,645	146,909	96
<i>Wireless</i>	361,499	175,058	186,441	107
Number of employees	29,432	28,166	1,266	4
<i>Fixed Line</i>	8,088	8,702	(614)	(7)
<i>Wireless</i>	5,395	5,295	100	2
<i>Information and Communications Technology</i>	15,949	14,169	1,780	13
Exchange Rates				
	<u>Php per US\$</u>			
March 31, 2008	Php41.756			
December 31, 2007	41.411			
March 31, 2007	48.217			
December 31, 2006	49.045			

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

(2) 2007 has been restated to reflect the change in revenue recognition policy for installation fees where we elected to defer and amortize our installation fees and corresponding costs over the expected average period of the customer relationship of our fixed line subscribers.

Overview

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

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Pilipino Telephone Corporation, or Piltel, our cellular service providers; Smart Broadband, Inc., or SBI, our wireless broadband provider; Wolfpac Mobile, Inc., or Wolfpac, our wireless content operator; Mabuhay Satellite Corporation, or Mabuhay Satellite and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator;
- *Fixed Line* — fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT's subsidiaries, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Maratel, Inc., Piltel, PLDT Global Corporation, or PLDT Global, Smart-NTT Multimedia, Inc., and Bonifacio Communications Corporation, which together account for approximately 4% of our consolidated fixed line subscribers; and
- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT; knowledge processing solutions provided by SPi Technologies, Inc. and its subsidiaries, or SPi Group; customer interaction services provided under the umbrella brand name *ePLDT Ventus*, through ePLDT Ventus, Inc., or Ventus, Parlance Systems, Inc., or Parlance, and Vocativ Systems, Inc., or Vocativ; internet access and online gaming services provided by Infocom Technologies, Inc., or Infocom, Digital Paradise, Inc., or Digital Paradise, Digital Paradise Thailand, Ltd., or Digital Paradise Thailand, netGames, Inc., or netGames, Airborne Access Corporation, or Airborne Access, and Level Up!, Inc., or 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 unaudited consolidated financial statements.

We registered revenues and other income of Php37,899 million in the first quarter of 2008, an increase of Php3,083 million, or 9%, as compared with Php34,816 million in the same period in 2007 primarily due to a gain on derivative transactions of Php1,777 million and an increase in our service revenues by Php1,862 million largely from our wireless business.

Expenses increased by Php286 million, or 1%, to Php21,732 million in the first quarter of 2008 from Php21,446 million in the same period in 2007, largely resulting from increases in depreciation and amortization, selling and promotions expenses and foreign exchange losses, partly offset by loss on derivative transactions, lower financing costs and cost of sales.

Net income attributable to equity holders of PLDT increased by Php1,832 million, or 21%, to Php10,446 million in the first quarter of 2008 from Php8,614 million in the same period in 2007. Consequently, our basic and diluted earnings per common share increased to Php54.71 in the first quarter of 2008 from Php45.08 and Php44.99 in the same period in 2007, respectively, despite the increase in the weighted average number of common shares outstanding from 188.6 million in the first quarter of 2007 to 188.9 million in the same period in 2008.



Results of Operations

The table below shows the contribution by each of our business segments to our unaudited revenues and other income, expenses and net income for the three months ended March 31, 2008 and 2007. Most of our revenues and other income are derived from our operations within the Philippines.

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Total				
	(in millions)								
For the three months ended									
March 31, 2008									
Revenues and other income	Php23,095	Php14,733	Php2,607	(Php2,536)	Php37,899				
Service	22,465	12,367	2,575	(2,474)	34,933				
Non-service	344	99	40	(1)	482				
Gain (loss) on derivative transactions – net	(124)	1,951	(31)	(19)	1,777				
Interest income	310	135	5	–	450				
Others	100	181	18	(42)	257				
Expenses	12,047	9,614	2,589	(2,518)	21,732				
Income before income tax	11,048	5,119	18	(18)	16,167				
Net income for the period	7,072	3,521	32	(18)	10,607				
Net income attributable to equity holders of PLDT	6,906	3,520	38	(18)	10,446				
For the three months ended									
March 31, 2007⁽¹⁾									
Revenues and other income	22,090	12,372	2,441	(2,087)	34,816				
Service	20,811	11,887	2,425	(2,052)	33,071				
Non-service	576	15	33	(11)	613				
Gain on derivative transactions – net	–	–	–	–	–				
Interest income	275	55	3	–	333				
Foreign exchange gains (losses) – net	365	251	(28)	–	588				
Others	63	164	8	(24)	211				
Expenses	11,506	9,736	2,291	(2,087)	21,446				
Income before income tax	10,584	2,636	150	–	13,370				
Net income for the period	6,894	1,717	159	–	8,770				
Net income attributable to equity holders of PLDT	6,729	1,717	168	–	8,614				
Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	Amount	%
Revenues and other income	Php1,005	5	Php2,361	19	Php166	7	(Php449)	Php3,083	9
Service	1,654	8	480	4	150	6	(422)	1,862	6
Non-service	(232)	(40)	84	560	7	21	10	(131)	(21)
Gain (loss) on derivative transactions – net	(124)	(100)	1,951	100	(31)	(100)	(19)	1,777	100
Interest income	35	13	80	145	2	67	–	117	35
Foreign exchange gains (losses) – net	(365)	(100)	(251)	(100)	28	100	–	(588)	(100)
Others	37	59	17	10	10	125	(18)	46	22
Expenses	541	5	(122)	(1)	298	13	(431)	286	1
Income before income tax	464	4	2,483	94	(132)	(88)	(18)	2,797	21
Net income for the period	178	3	1,804	105	(127)	(80)	(18)	1,837	21
Net income attributable to equity holders of PLDT	177	3	1,803	105	(130)	(77)	(18)	1,832	21

(1) 2007 has been restated to reflect the change in revenue recognition policy for installation fees where we elected to defer and amortize our installation fees and corresponding costs over the expected average period of the customer relationship of our fixed line subscribers.

Wireless

Total Revenues and Other Income

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

The following table summarizes our unaudited total revenues and other income from our wireless business for the three months ended March 31, 2008 and 2007 by service segment:

	Three Months Ended March 31,					
	2008		2007		Increase (Decrease)	
	%	%	%	Amount	%	
	(in millions)					
Wireless Services:						
Service revenues						
Cellular	Php21,147	91	Php19,923	90	Php1,224	6
Wireless broadband, satellite and others	1,318	6	888	4	430	48
	<u>22,465</u>	<u>97</u>	<u>20,811</u>	<u>94</u>	<u>1,654</u>	<u>8</u>
Non-Service Revenues						
Sale of cellular handsets and SIM-packs	344	2	576	3	(232)	(40)
Interest income	310	1	275	1	35	13
Foreign exchange gains – net	–	–	365	2	(365)	(100)
Loss on derivative transactions – net	(124)	(1)	–	–	(124)	(100)
Others	100	1	63	–	37	59
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Total Wireless Revenues and Other Income	<u>Php23,095</u>	<u>100</u>	<u>Php22,090</u>	<u>100</u>	<u>Php1,005</u>	<u>5</u>

Service Revenues

Our wireless service revenues increased by Php1,654 million, or 8%, to Php22,465 million in the first quarter of 2008 as compared with Php20,811 million in the same period in 2007, mainly as a result of the growth in the cellular and wireless broadband subscriber base. Short messaging service, or SMS, and data revenues benefited from the larger subscriber base; voice revenues remained flat, however, as the unfavorable effect of a lower average Philippine peso to the U.S. dollar exchange rate on our dollar-linked revenues offset the increase in call volumes. As a percentage of our total wireless revenues and other income, service revenues contributed 97% in the first quarter of 2008 as compared with 94% in the same period in 2007.

Cellular Service

Our cellular service revenues consist of: (i) revenues derived from actual usage of the network by prepaid subscribers and any unused peso value of expired prepaid cards or electronic air time loads, net of content costs and discounts given to dealers and retailers; (ii) monthly service fees from postpaid subscribers, including (a) toll charges for national and international long distance calls; (b) charges for calls and text messages in excess of allocated free local calls and text messages, respectively; and (c) charges for value-added services, net of related content provider costs; (iii) revenues generated from incoming calls and messages to our subscribers, net of interconnection expenses, fees from reciprocal traffic from international correspondents, and revenues from inbound international roaming services; and (iv) other charges, including those for reconnection and migration.

Our cellular service revenues in the first quarter of 2008 amounted to Php21,147 million, an increase of Php1,224 million, or 6%, from Php19,923 million in the same period in 2007. Cellular service revenues accounted for 94% of our wireless service revenues in the first quarter of 2008 as compared with 96% in the same period in 2007.

Smart markets cellular communications services nationwide 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 calls of preset duration. Starting out as purely on-network (Smart-to-Smart) packages, Smart'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 (Smart-to-Smart) text messaging in various load denominations with designated expiration periods.

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

The following table summarizes the unaudited key measures of our cellular business as at and for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,			
	2008	2007	Increase	
			Amount	%
	(in millions)			
Cellular service revenues	Php21,147	Php19,923	Php1,224	6
<i>By service type</i>	<i>20,611</i>	<i>19,391</i>	<i>1,220</i>	<i>6</i>
Prepaid	19,096	17,962	1,134	6
Postpaid	1,515	1,429	86	6
<i>By component</i>	<i>20,611</i>	<i>19,391</i>	<i>1,220</i>	<i>6</i>
Voice	8,889	8,874	15	–
Data	11,722	10,517	1,205	11
<i>Others⁽¹⁾</i>	<i>536</i>	<i>532</i>	<i>4</i>	<i>1</i>

⁽¹⁾ 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.

	As at March 31,			
	2008	2007	Increase	
			Amount	%
Cellular subscriber base	31,575,959	25,483,459	6,092,500	24
Prepaid	31,232,962	25,157,975	6,074,987	24
<i>Smart</i>	20,279,368	17,762,723	2,516,645	14
<i>Piltel</i>	10,953,594	7,395,252	3,558,342	48
Postpaid	342,997	325,484	17,513	5
	Three Months Ended March 31,			
	2008	2007	Increase (Decrease)	
			Amount	%
Systemwide traffic volumes (in millions)				
Calls (in minutes)	1,612	1,470	142	10
Domestic – outbound	949	872	77	9
International	663	598	65	11
<i>Inbound</i>	609	551	58	11
<i>Outbound</i>	54	47	7	15
SMS count	55,908	56,357	(449)	(1)
Text messages	55,493	55,783	(290)	(1)
<i>Standard</i>	5,884	6,911	(1,027)	(15)
<i>Bucket-Priced</i>	49,539	48,810	729	1
<i>International</i>	70	62	8	13
Value-Added Services	407	563	(156)	(28)
Financial Services	8	11	(3)	(27)

Revenues attributable to our cellular prepaid service amounted to Php19,096 million in the first quarter of 2008, a 6% increase over the Php17,962 million earned in the same period in 2007. Prepaid service revenues in the first quarter of 2008 and 2007 accounted for 93% of voice and data revenues. Revenues attributable to Smart's postpaid service amounted to Php1,515 million in the first quarter of 2008, a 6% increase over the Php1,429 million earned in the same period in 2007, and accounted for 7% of voice and data revenues in the first quarter of 2008 and 2007.

Voice Services

Cellular revenues from voice services, which include all voice traffic and voice value-added services such as voice mail and international roaming, increased by Php15 million to Php8,889 million in the first quarter of 2008 from Php8,874 million in the same period in 2007 primarily due to an increase in outbound domestic call traffic as well as in outbound and inbound international traffic, partly offset by the unfavorable effect on international revenues of a lower Philippine peso to the U.S. dollar exchange rate. Cellular voice services accounted for 42% of cellular service revenues in the first quarter of 2008 as compared with 45% in the same period in 2007.

Air time rates for postpaid subscribers vary depending on the type of postpaid plan selected by subscribers.

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as value-added services, increased by Php1,205 million, or 11%, to Php11,722 million in the first quarter of 2008 from Php10,517 million in the same period in 2007. Cellular data services accounted for 55% of cellular service revenues in the first quarter of 2008 as compared with 53% in the same period in 2007.

The following table shows the breakdown of our unaudited cellular data revenues for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,			
	2008	2007	Increase (Decrease)	
			Amount	%
	(in millions)			
Text messaging				
Domestic	Php10,659	Php9,270	Php1,389	15
Standard	4,313	5,536	(1,223)	(22)
Bucket-Priced	6,346	3,734	2,612	70
International	465	425	40	9
	<u>11,124</u>	<u>9,695</u>	<u>1,429</u>	<u>15</u>
Value-added services				
Standard ⁽¹⁾	360	552	(192)	(35)
Rich Media ⁽²⁾	103	67	36	54
Pasa Load	120	182	(62)	(34)
	<u>583</u>	<u>801</u>	<u>(218)</u>	<u>(27)</u>
Financial services				
Smart Money	14	20	(6)	(30)
Mobile Banking	1	1	-	-
	<u>15</u>	<u>21</u>	<u>(6)</u>	<u>(29)</u>
Total	<u>Php11,722</u>	<u>Php10,517</u>	<u>Php1,205</u>	<u>11</u>

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

(2) Includes Multimedia Messaging System, Wireless Application Protocol, General Packet Radio Service, or GPRS, etc.

Text messaging-related services contributed revenues of Php11,124 million in the first quarter of 2008, an increase of Php1,429 million, or 15%, compared with Php9,695 million in the same period in 2007, and accounted for 95% and 92% of the total cellular data revenues in the first quarter of 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 Php6,346 million in the first quarter of 2008, an increase of Php2,612 million, or 70%, compared with Php3,734 million in the same period in 2007. On the other hand, standard text messaging revenues declined by Php1,223 million, or 22%, to Php4,313 million in the first quarter of 2008 compared with Php5,536 million in the same period in 2007.

Standard text messages totaled 5,884 million in the first quarter of 2008, a decrease of 1,027 million, or 15%, from 6,911 million in the same period in 2007 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in the first quarter of 2008 totaled 49,539 million, an increase of 729 million, or 1%, as compared with 48,810 million in the same period in 2007. The minimal growth in bucket-priced text traffic is reflective of a shift from unlimited text packages to low-denomination text packages with a fixed number of SMS, resulting in improved yield per SMS and increased text revenues.

Value-added services, which contributed revenues of Php583 million in the first quarter of 2008, decreased by Php218 million, or 27%, from Php801 million in the same period in 2007 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 the first quarter of 2008 as compared with the same period in 2007.

Subscriber Base, ARPU and Churn Rates

In the first quarter of 2008, Smart and Piltel cellular subscribers totaled 31,575,959, an increase of 6,092,500, or 24%, over their combined cellular subscriber base of 25,483,459 in the same period in 2007. Prepaid subscribers accounted for 99% of our total subscriber base in the first quarter of 2008 and 2007. Our cellular prepaid subscriber base grew by 24% to 31,232,962 in the first quarter of 2008 from 25,157,975 in the same period in 2007, while our postpaid subscriber base increased by 5% to 342,997 in the first quarter of 2008 from 325,484 in the same period in 2007. Prepaid and postpaid subscribers reflected net subscriber activations of 1,533,812 and 1,117, respectively, in the first quarter of 2008.

Our net subscriber activations for the three months ended March 31, 2008 and 2007 were as follows:

	Three Months Ended March 31,			
	2008	2007	Increase (Decrease)	
			Amount	%
			(Unaudited)	
Prepaid				
Smart	282,044	880,281	(598,237)	(68)
Piltel	1,251,768	420,873	830,895	197
Postpaid	1,117	6,921	(5,804)	(84)
Total	1,534,929	1,308,075	226,854	17

The following table summarizes our cellular ARPUs for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,							
	Gross		Decrease		Net		Decrease	
	2008	2007	Amount	%	2008	2007	Amount	%
Prepaid								
Smart	Php292	Php323	(Php31)	(10)	Php230	Php267	(Php37)	(14)
Piltel	207	228	(21)	(9)	163	187	(24)	(13)
Prepaid – Blended	263	295	(32)	(11)	207	244	(37)	(15)
Postpaid – Smart	2,013	2,045	(32)	(2)	1,472	1,483	(11)	(1)
Prepaid and Postpaid Blended	283	318	(35)	(11)	221	260	(39)	(15)

ARPU is computed for each month by dividing the revenues for the relevant services for the month by the average of the number of subscribers at the beginning and at the end of the month. Gross monthly ARPU is computed by dividing the revenues for the relevant services, gross of discounts and allocated content-provider costs, including interconnection income but excluding inbound roaming revenues, by the average number of subscribers. Net monthly ARPU, on the other hand, is calculated based on revenues net of discounts and allocated content-provider costs and interconnection income net

of interconnection expense. ARPU for any period of more than one month is calculated as the simple average of the monthly ARPUs in that period.

Prepaid service revenues consist mainly of charges for subscribers' actual usage of their loads. Prepaid blended ARPU in the first quarter of 2008 was Php263, a decrease of 11%, compared with Php295 in the same period in 2007. The average outbound domestic and international voice as well as the average value-added services and inbound revenue per subscriber declined in the first quarter of 2008 compared with the same period in 2007. On a net basis, prepaid blended ARPU in the first quarter of 2008 was Php207, a decrease of 15%, compared with Php244 in the same period in 2007.

Monthly ARPU for Smart's postpaid services is calculated in a manner similar to that of prepaid service, except that the revenues consist mainly of monthly service fees and charges on usage in excess of the monthly service fees.

Gross monthly ARPU for postpaid subscribers decreased by 2% to Php2,013 while net monthly ARPU decreased by 1% to Php1,472 in the first quarter of 2008 as compared with Php2,045 and Php1,483 in the same period in 2007, respectively. Prepaid and postpaid monthly gross blended ARPU was Php283 in the first quarter of 2008, a decrease of 11%, compared with Php318 in the same period in 2007. Monthly net blended ARPU decreased by 15% to Php221 in the first quarter of 2008 as compared with Php260 in the same period in 2007.

Our quarterly prepaid and postpaid ARPUs for the three months ended March 31, 2008 and 2007 were as follows:

	Prepaid				Postpaid	
	Smart		Piltel		Smart	
	Gross	Net	Gross	Net	Gross	Net
2008						
First Quarter	Php292	Php230	Php207	Php163	Php2,013	Php1,472
2007						
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

Churn, or the rate at which existing subscribers have their service cancelled in a given period, is computed based on total disconnections in the period, net of reconnections in the case of postpaid subscribers, divided by the average of the number of subscribers at the beginning and at the end of a month, all divided by the number of months in the same period.

We recognize a prepaid cellular subscriber as an active subscriber when that subscriber activates and uses the SIM card in the subscriber's handset, which contains pre-stored air time. The pre-stored air time, which is equivalent to Php1 plus 50 free SMS for *Smart Buddy* and 25 free SMS for *Talk 'N Text*, can only be used upon purchase or reload of air time of any value. Subscribers can reload their air time by purchasing prepaid "call and text" cards; by purchasing additional air time "over the air" via *Smart Load*, *All Text* or *Smart Connect*; and by receiving loads of Php2, Php5, Php10 and Php15 via *Pasa Load*, or through their handsets using *Smart Money*. Reloads have validity periods ranging from one day to two months, depending on the amount reloaded. 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. Our current policy is to recognize a prepaid subscriber as "active" only when the subscriber

activates and uses the SIM card and reloads at least once during the month of initial activation or in the immediate succeeding month.

For Smart prepaid, the average monthly churn rate for the first quarter of 2008 and 2007 were 4.7% and 2.7%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers in the first quarter of 2008 and 2007 were 4.1% and 3.4%, respectively.

The average monthly churn rate for Smart's postpaid subscribers for the first quarter of 2008 was 1.5% compared with 1.1% in the same period 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.

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 PLDT Global's subsidiaries. Gross revenues from these services for the first quarter of 2008 amounted to Php1,318 million, an increase of Php430 million, or 48%, from Php888 million in the same period in 2007 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 347,958 subscribers in the first quarter of 2008 as compared with 163,799 in the same period in 2007. *SmartBro*, SBI's fixed wireless broadband service 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 Php919 million in the first quarter of 2008, increasing by Php505 million, or 122%, from Php414 million in the same period 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 free 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). Principally targeted at the corporate market, this service had 13,541 subscribers in the first quarter of 2008 compared with 11,259 subscribers in the same period in 2007 and contributed Php38 million to our data revenues, increasing by Php9 million, or 31%, from Php29 million.

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 Php232 million, or 40%, to Php344 million in the first quarter of 2008 as compared with Php576 million in the same period in 2007 primarily due to lower average revenue per cellular phonekit and SIM-pack, and a lower quantity of phonekits sold, partly offset by a higher volume of SIM-packs sold in the first quarter of 2008.

Interest Income

Our wireless interest income increased by Php35 million, or 13%, to Php310 million in the first quarter of 2008 as compared with Php275 million in the same period in 2007 primarily due to a higher average interest rate and higher level of investments in the first quarter of 2008.

Foreign Exchange Gains – net

Foreign exchange gains – net amounted to Php365 million in the first quarter of 2007 primarily due to a gain on revaluation of foreign currency-denominated assets and liabilities mainly as a result of the peso appreciation in the first quarter of 2007.

Loss on Derivative Transactions – net

Loss on derivative transactions – net of Php124 million in the first quarter of 2008 relates to the loss in the mark-to-market valuation of forward contracts and embedded derivatives on service and purchase contracts.

Others

All other income/gains such as rental income, gain on disposal of property are included under this classification. Our wireless business segment generated other income of Php100 million in the first quarter of 2008, an increase of Php37 million, or 59%, as compared with Php63 million in the same period in 2007 primarily due to recovery of inventory losses and increase in rental income, partly offset by lower gain on disposal of fixed assets.

Expenses

Expenses associated with our wireless business in the first quarter of 2008 amounted to Php12,047 million, an increase of Php541 million, or 5%, from Php11,506 million in the same period in 2007. A significant portion of this increase was attributable to higher rent, selling and promotions expenses, and depreciation and amortization, partially offset by lower cost of sales and financing costs. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 52% in the first quarter of 2008 and 2007.

Cellular business expenses accounted for 91% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 9% of our wireless business expenses in the first quarter of 2008 compared with 94% and 6%, respectively, in the same period in 2007.

The following table summarizes the breakdown of our unaudited total wireless-related expenses for the three months ended March 31, 2008 and 2007 and the percentage of each expense item to the total:

	Three Months Ended March 31,					
	2008		2007		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Wireless Services:						
Depreciation and amortization	Php3,154	26	Php2,925	25	Php229	8
Rent	2,295	19	1,989	17	306	15
Compensation and employee benefits ⁽¹⁾	1,242	10	1,216	11	26	2
Selling and promotions	1,108	9	873	8	235	27
Repairs and maintenance	1,056	9	897	8	159	18
Cost of sales	779	7	1,149	10	(370)	(32)
Professional and other contracted services	594	5	565	5	29	5
Taxes and licenses	502	4	354	3	148	42
Financing costs – net	497	4	621	5	(124)	(20)
Communication, training and travel	239	2	239	2	–	–
Insurance and security services	172	1	198	2	(26)	(13)
Asset impairment	61	1	109	1	(48)	(44)
Amortization of intangible assets	33	–	42	–	(9)	(21)
Foreign exchanges losses – net	19	–	–	–	19	100
Gain on derivative transactions – net	–	–	(13)	–	13	100
Other expenses	296	3	342	3	(46)	(13)
Total	Php12,047	100	Php11,506	100	Php541	5

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

Depreciation and amortization charges increased by Php229 million, or 8%, to Php3,154 million in the first quarter of 2008 principally due to an increase in our depreciable asset base mainly transmission facilities, 2G, 3G and broadband networks, and broadband customer-deployed equipment.

Rent expenses increased by Php306 million, or 15%, to Php2,295 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 the first quarter of 2008, we had 5,116 GSM cell sites and 7,893 base stations, compared with 4,390 GSM cell sites and 7,194 base stations in the same period in 2007.

Compensation and employee benefits expenses increased by Php26 million, or 2%, to Php1,242 million primarily due to higher accrued bonuses and employees' basic pay increase of Smart partly offset by lower LTIP costs as a result of a price decrease in PLDT shares. Smart and subsidiaries' employee headcount increased by 100 to 5,395 in the first quarter of 2008 as compared with 5,295 in the same period in 2007. For further discussion on our LTIP, please see *Note 23 – Share-based Payments and Employee Benefits* to the accompanying unaudited consolidated financial statements.

Selling and promotion expenses increased by Php235 million, or 27%, to Php1,108 million due to higher advertising, promotion and commission expenses, partly offset by decreases in public relations expense and printing cost of prepaid cards with the prevalence of e-loading.

Repairs and maintenance expenses increased by Php159 million, or 18%, to Php1,056 million mainly due to an increase in software and network repairs and maintenance costs, partly offset by a decrease in fuel costs for power generation.

Cost of sales decreased by Php370 million, or 32%, to Php779 million due to a lower average cost of cellular phonekits and SIM-packs, as well as a lower quantity of phonekits sold.

Professional and other contracted services increased by Php29 million, or 5%, to Php594 million primarily due to higher expenses for outsourced and technical services, partially offset by lower consultancy fees. Please see *Note 22 – Related Party Transactions* to the accompanying unaudited consolidated financial statements for further discussion.

Taxes and licenses increased by Php148 million, or 42%, to Php502 million primarily due to the imposition of new licenses and fees on telecommunications entities, partly offset by lower non-creditable input tax.

Our financing costs – net decreased by Php124 million, or 20%, to Php497 million in the first quarter of 2008 from Php621 million in the same period in 2007 on account of lower interest on loans and related items, lower financing charges and higher capitalized interest.

Insurance and security services decreased by Php26 million, or 13%, to Php172 million primarily due to a decrease in site security expenses and lower charges on insurance contracts.

Asset impairment decreased by Php48 million, or 44%, to Php61 million mainly due to lower provisions for inventory obsolescence in the first quarter of 2008.

Amortization of intangible assets decreased by Php9 million, or 21%, to Php33 million mainly due to intangible assets relating to customer list arising from the acquisition of SBI which was fully amortized by August 2007.

Foreign exchange losses – net amounted to Php19 million primarily due to loss on revaluation of net foreign currency-denominated assets and liabilities due to the depreciation of the Philippine peso in the first quarter of 2008.

Gain on derivative transactions – net of Php13 million in the first quarter of 2007 relates to the gain in the mark-to-market valuation of forward contracts and embedded derivatives on service and purchase contracts.

Other expenses decreased by Php46 million, or 13%, to Php296 million primarily due to lower various business and operational-related expenses.

Provision for Income Tax

Provision for income tax increased by Php286 million, or 8%, to Php3,976 million in the first quarter of 2008 from Php3,690 million in the same period in 2007. In the first quarter of 2008, the effective tax rate for our wireless business was 36% as compared with 35% in the same period in 2007 mainly due to higher non-deductible expenses and derecognition of deferred income tax assets by ACeS Philippines in the first quarter of 2008.

Net Income

Our wireless business segment recorded a net income of Php7,072 million in the first quarter of 2008, an increase of Php178 million, or 3%, over Php6,894 million registered in the same period in 2007 on account of an 8% increase in wireless service revenues, partially offset by a 5% increase in

wireless-related expenses and higher provision for income tax.

Fixed Line

Total Revenues and Other Income

Revenues and other income generated from our fixed line business in the first quarter of 2008 totaled Php14,733 million, an increase of Php2,361 million, or 19%, from Php12,372 million in the same period in 2007.

The following table summarizes the unaudited revenues and other income of our fixed line business for the three months ended March 31, 2008 and 2007 by service segment:

	Three Months Ended March 31,					
	2008		2007		Increase (Decrease)	
		%		%	Amount	%
	(in millions)					
Fixed line services:						
Service revenues						
Local exchange	Php4,085	28	Php3,964	32	Php121	3
International long distance	1,835	12	2,400	19	(565)	(24)
National long distance	1,695	12	1,593	13	102	6
Data and other network	4,392	30	3,563	29	829	23
Miscellaneous	360	2	367	3	(7)	(2)
	<u>12,367</u>	<u>84</u>	<u>11,887</u>	<u>96</u>	<u>480</u>	<u>4</u>
Non-service revenues						
Sale of computers	99	1	15	–	84	560
Gain on derivative transactions –net	1,951	13	–	–	1,951	100
Interest income	135	1	55	1	80	145
Foreign exchange gains –net	–	–	251	2	(251)	(100)
Others	181	1	164	1	17	10
	<u>181</u>	<u>1</u>	<u>164</u>	<u>1</u>	<u>17</u>	<u>10</u>
Total Fixed Line Revenues and Other Income	<u>Php14,733</u>	<u>100</u>	<u>Php12,372</u>	<u>100</u>	<u>Php2,361</u>	<u>19</u>

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 Php480 million, or 4%, to Php12,367 million in the first quarter of 2008 from Php11,887 million in the same period in 2007 primarily due to an increase in our data and other network service as a result of higher revenues contributed by our DSL and Diginet services, as well as increases in our local exchange and national long distance services, partially offset by a decrease in our international long distance and miscellaneous 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 value-added services such as call waiting, call forwarding, multi-party conference calling, speed calling and caller ID.



The following table summarizes the unaudited key measures of our local exchange service business as at and for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,			
	2008	2007	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php4,085	Php3,964	Php121	3
Number of fixed line subscribers	1,763,602	1,847,084	(83,482)	(5)
Postpaid	1,521,159	1,476,621	44,538	3
Prepaid	242,443	370,463	(128,020)	(35)
Number of fixed line employees	8,088	8,702	(614)	(7)
Number of fixed line subscribers per employee	218	212	6	3

Revenues from our local exchange service increased by Php121 million, or 3%, to Php4,085 million in the first quarter of 2008 from Php3,964 million in the same period in 2007 primarily due to an increase in the average number of postpaid billed lines as a result of the launching of PLDT Landline Plus and higher bundled voice and data services, interconnection and service connection charges, partially offset by a decrease in average revenue per minute on account of lower fixed charges. The percentage contribution of local exchange revenues to our total fixed line service revenues remained at 33% in the first quarter of 2008 and 2007.

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. PLDT has consolidated its prepaid fixed line service into *Telepwede* which is funded by e-Loads (available at Smart or PLDT e-Load retailers). *Telepwede* subscribers are charged Php115 to receive incoming calls and can reload for as low as Php30 to make outgoing calls. Local call rates are made more affordable at Php2 per call, unlimited.

In March 2007, PLDT launched the 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 the PLDT Landline Plus. As at March 31, 2008, there were a total of 74,896 PLDT Landline Plus subscribers, of which 59,877 and 15,019 were postpaid and prepaid subscribers, respectively.

International Long Distance Service

Our international long distance service revenues, which we generate through our international gateway facilities, consist of (i) inbound call revenues representing settlements from foreign telecommunications carriers for inbound international calls, virtual transit and hubbing service and reverse charged calls such as received collect and home country direct service; (ii) access charges paid to us by other Philippine telecommunications carriers for terminating inbound international calls to our local exchange network; and (iii) outbound call revenues representing amounts billed to our customers (other than our cellular customers) for outbound international calls, net of amounts payable to foreign telecommunications carriers for terminating calls in their territories.

The following table shows our unaudited fixed line international long distance revenues and call volumes for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,			
	2008	2007	Decrease	
			Amount	%
Total international long distance service revenues (in millions)	Php1,835	Php2,400	(Php565)	(24)
Inbound	1,475	2,032	(557)	(27)
Outbound	360	368	(8)	(2)
International call volumes (in million minutes, except call ratio)	506	577	(71)	(12)
Inbound	443	513	(70)	(14)
Outbound	63	64	(1)	(2)
Inbound-outbound call ratio	7.0:1	8.0:1	-	-

Our total international long distance service revenues decreased by Php565 million, or 24%, to Php1,835 million in the first quarter of 2008 from Php2,400 million in the same period in 2007 primarily due to the appreciation of the Philippine peso, a decrease in average termination rates for inbound calls and a decrease in inbound and outbound call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 15% in the first quarter of 2008 from 20% in the same period in 2007.

Our revenues from inbound international long distance service decreased by Php557 million, or 27%, to Php1,475 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, as well as a decrease in inbound traffic volume by 70 million minutes to 443 million minutes in the first quarter of 2008. The appreciation of the Philippine peso to the U.S. dollar with average exchange rates of Php41.12 in the first quarter of 2008 and Php48.92 in the same period in 2007 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 2%, to Php360 million in the first quarter of 2008 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 appreciation of Philippine peso in 2007, which more than offset the increase in outbound international call volumes in the first quarter of 2008.

National Long Distance Service

Our national long distance service revenues consist of: (i) per minute charges for calls made by our fixed line customers outside of the local service areas but within the Philippines, net of interconnection charges payable for calls carried through the backbone network of, and/or terminating to the customer of, another telecommunications carrier; (ii) access charges received from other telecommunications carriers for calls carried through our backbone network and/or terminating to our customers; and (iii) fixed charges paid by other telephone companies, charges retained by PLDT for calls terminating to cellular subscribers within the local area, and local access charges paid by cellular operators for calls by cellular subscribers that terminate to our local exchange network.

The following table shows our unaudited national long distance service revenues and call volumes for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,			
	2008	2007	Increase (Decrease)	
			Amount	%
Total national long distance service revenues (in millions)	Php1,695	Php1,593	Php102	6
National long distance call volumes (in million minutes)	520	540	(20)	(4)

Our national long distance service revenues increased by Php102 million, or 6%, to Php1,695 million in the first quarter of 2008 from Php1,593 million in the same period in 2007 primarily due to an increase in average revenue per minute in the first quarter of 2008. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 14% in the first quarter of 2008 and 2007.

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 unaudited data and other network service revenues for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,			
	2008	2007	Increase (Decrease)	
			Amount	%
Data and other network service revenues (in millions)	Php4,392	Php3,563	Php829	23
Number of <i>DSL</i> broadband subscribers	299,554	152,645	146,909	96
Number of <i>PLDT Vibe</i> narrowband subscribers	200,862	299,832	(98,970)	(33)

In the first quarter of 2008, our data and other network services posted revenues of Php4,392 million, an increase of Php829 million, or 23%, from Php3,563 million in the same period in 2007 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 35% in the first quarter of 2008 from 30% in the same period 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 value-added service providers.

DSL contributed revenues of Php1,227 million in the first quarter of 2008, an increase of Php351 million, or 40%, from Php876 million in the same period 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 plans as part of promotions. DSL reached 299,554 subscribers in the first quarter of 2008 compared with 152,645 subscribers in the same period in 2007.

PLDT Vibe revenues decreased by Php35 million, or 44%, to Php45 million in the first quarter of 2008 from Php80 million in the same period in 2007 primarily due to lower number of plan subscribers as well as the declining usage of *Vibe* prepaid. *PLDT Vibe* subscribers decreased to 200,862 in the first quarter of 2008 from 299,382 in the same period 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 also taken up much subscription from 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 increased by Php306 million, or 19%, to Php1,925 million in the first quarter of 2008 as compared with Php1,619 million in the same period in 2007 mainly due to Smart's DFON rental of Php1,458 million and Php1,210 million in the first quarter of 2008 and 2007, respectively.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising and facilities management and rental fees. In the first quarter of 2008, these revenues decreased by Php7 million, or 2%, to Php360 million from Php367 million in the same period in 2007 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 the first quarter of 2008 and 2007.

Non-service Revenues

Non-service revenues increased by Php84 million, or 560%, to Php99 million in the first quarter of 2008 from Php15 million in the same period in 2007 primarily due to an increase in subscriptions for our DSL service that is bundled with computers and thus resulted in higher computer sales.

Gain on Derivative Transactions – net

We recognized a gain on derivative transactions – net of Php1,951 million in the first quarter of 2008, of which Php1,255 million pertain to the gain on mark-to-market valuation of various financial instruments, and Php696 million pertain to the impact of the de-designation of foreign currency swaps and option contracts beginning January 1, 2008. This change in accounting treatment 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 unaudited consolidated financial statements for further discussion.

Interest Income

Interest income of our fixed line business segment increased by Php80 million, or 145%, to Php135 million in the first quarter of 2008 from Php55 million in the same period in 2007 primarily due to a higher level of cash balances.

Foreign Exchange Gains – net

Our fixed line foreign exchange gains – net amounted to Php251 million in the first quarter of 2007 primarily due to revaluation of net foreign currency-denominated liabilities as a result of the appreciation of the Philippine peso to the U.S. dollar in the first quarter of 2007.

Others

All other income/gains such as rental income and gain on disposal of property, which do not fall under service and non-service revenues, are included under this classification. In the first quarter of 2008, our fixed line business segment registered an increase in other income of Php17 million, or 10%, to Php181 million from Php164 million in the same period in 2007 largely due to gain on disposal of fixed assets.

Expenses

Expenses related to our fixed line business totaled Php9,614 million in the first quarter of 2008, a decrease of Php122 million, or 1%, as compared with Php9,736 million in the same period in 2007. The decrease was primarily due to loss on derivative transactions in 2007, lower financing costs and compensation and employee benefits, partially offset by higher depreciation and amortization, foreign exchange losses, asset impairment and rent.

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

	Three Months Ended March 31,					
	2008		2007		Increase (Decrease)	
	%	%	Amount	%	Amount	%
	(in millions)					
Fixed line services:						
Depreciation and amortization	Php2,993	31	Php2,289	24	Php704	31
Compensation and employee benefits ⁽¹⁾	1,916	20	2,382	25	(466)	(20)
Repairs and maintenance	997	10	928	10	69	7
Financing costs – net	842	9	1,424	15	(582)	(41)
Rent	546	6	423	4	123	29
Professional and other contracted services	444	5	430	4	14	3
Selling and promotions	409	4	362	4	47	13
Taxes and licenses	306	3	235	2	71	30
Foreign exchange losses – net	258	3	–	–	258	100
Asset impairment	244	2	114	1	130	114
Communication, training and travel	175	2	130	1	45	35
Insurance and security services	172	2	139	1	33	24
Cost of sales	74	1	47	1	27	57
Loss on derivative transactions – net	–	–	720	7	(720)	(100)
Provisions	–	–	9	–	(9)	(100)
Other expenses	238	2	104	1	134	129
Total	Php9,614	100	Php9,736	100	(Php122)	(1)

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

Depreciation and amortization charges increased by Php704 million, or 31%, to Php2,993 million in the first quarter of 2008 due to higher depreciable asset base from additional completed projects.

Compensation and employee benefits expenses decreased by Php466 million, or 20%, to Php1,916 million primarily due to a decrease in pension benefits and lower LTIP costs as a result of a decrease in PLDT's share price. For further discussion on our LTIP, please see *Note 23 – Share-based Payments and Employee Benefits* to the accompanying unaudited consolidated financial statements.

Repairs and maintenance expenses increased by Php69 million, or 7%, to Php997 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 the first quarter of 2008 as compared with the same period in 2007.

Financing costs – net decreased by Php582 million, or 41%, to Php842 million largely due to lower interest on loans and related items resulting from lower debt levels partially offset by higher financing charges.

Rent expenses increased by Php123 million, or 29%, to Php546 million due to the increase in pole rental charges and international leased circuit charges, partially offset by a decrease in transponder lease.

Professional and other contracted services increased by Php14 million, or 3%, to Php444 million primarily due to higher contracted fees for technical and advisory services, partially offset by lower consultancy service fees.

Selling and promotion expenses increased by Php47 million, or 13%, to Php409 million primarily due to higher marketing expenses as a result of the launch of major advertising campaigns in the first quarter of 2008, partially offset by a collective effort in efficient media spending in relation to various products and services.

Taxes and licenses increased by Php71 million, or 30%, to Php306 million mainly due to higher payment of NTC supervision and license fees.

Foreign exchange losses – net amounted to Php258 million in the first quarter of 2008 primarily due to loss on revaluation of net foreign currency-denominated liabilities as a result of the depreciation of the Philippine peso in the first quarter of 2008.

Asset impairment increased by Php130 million, or 114%, to Php244 million mainly due to higher impairment charge on uncollectible receivables.

Communication, training and travel expenses increased by Php45 million, or 35%, to Php175 million due to the increase in mailing, courier and delivery charges, partially offset by a net decrease in foreign and local travel, and training expenses.

Insurance and security services increased by Php33 million, or 24%, to Php172 million primarily due to higher premiums on property all-risk, industrial all-risk and industrial fire insurance.

Cost of sales increased by Php27 million, or 57%, to Php74 million due to higher computer-bundled sales in relation to our DSL promotion and *WeRoam* subscriptions.

Loss on derivative transactions – net amounted to Php720 million in the first quarter of 2007 primarily due to higher hedging costs and the effect of the appreciation of the Philippine peso against the U.S. dollar.

Provisions amounted to Php9 million in the first quarter of 2007 primarily due to provision for assessments in 2007. Please see *Note 25 – Provisions and Contingencies* to the accompanying unaudited consolidated financial statements for further details.

Other expenses increased by Php134 million, or 129%, to Php238 million due to higher various business and operational-related expenses.

Provision for Income Tax

Provision for income tax amounted to Php1,598 million in the first quarter of 2008 as compared with Php919 million in the same period in 2007 primarily due to higher taxable income. Effective tax rate is lower at 31% in the first quarter of 2008 compared with 35% in the same period in 2007 due to a higher non-taxable income in the first quarter of 2008.

Net Income

In the first quarter of 2008, our fixed line business segment contributed a net income of Php3,521 million, an increase of Php1,804 million, or 105%, as compared with Php1,717 million in the same period in 2007 mainly as a result of a gain on derivative transactions of Php1,951 million.

Information and Communications Technology

Total Revenues and Other Income

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

In the first quarter of 2008, our ICT business generated revenues and other income of Php2,607 million, an increase of Php166 million, or 7%, from Php2,441 million in the same period in 2007. This increase was due to the continued growth of our customer interaction services.

The following table summarizes the unaudited total revenues and other income from our ICT business for the three months ended March 31, 2008 and 2007 by service segment:

	Three Months Ended March 31,					
	2008		2007		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Service Revenues						
Knowledge processing solutions	Php1,323	51	Php1,269	52	Php54	4
Customer interaction services	867	33	782	32	85	11
Internet and online gaming	242	9	237	10	5	2
Vitro™ data center	143	5	137	6	6	4
	<u>2,575</u>	<u>98</u>	<u>2,425</u>	<u>100</u>	<u>150</u>	<u>6</u>
Non-service revenues						
Point-Product-Sales	40	2	33	1	7	21
Interest income	5	–	3	–	2	67
Foreign exchange losses – net	–	–	(28)	(1)	28	100
Loss on derivative transactions – net	(31)	(1)	–	–	(31)	(100)
Others	18	1	8	–	10	125
	<u>18</u>	<u>1</u>	<u>8</u>	<u>–</u>	<u>10</u>	<u>125</u>
Total ICT Revenues and Other Income	<u>Php2,607</u>	<u>100</u>	<u>Php2,441</u>	<u>100</u>	<u>Php166</u>	<u>7</u>

Service Revenues

Service revenues generated by our ICT business segment amounted to Php2,575 million in the first quarter of 2008, an increase of Php150 million, or 6%, as compared with Php2,425 million in the same period in 2007 primarily as a result of the consolidation of financial results of Springfield Service Corporation, or Springfield, in April 2007 and the continued growth of our customer interaction services business.

Knowledge Processing Solutions

Knowledge processing solution revenues consist of: (i) editorial and content production services to the scholarly scientific, technical and medical (SSTM) journal publishing industry; (ii) digital content conversion services to information organizations; (iii) pre-press project management services to book publishers; (iv) litigation support services which involve conventional coding and electronic discovery support services for corporations, international law firms, corporate counsels and government agencies; (v) conversion services of medical record/data from handwritten or speech format to electronic format and patient scheduling, coding and compliance assistance, consulting and specialized reporting services; and (vi) revenue cycle management services for U.S. medical facilities.

We provide our knowledge processing solutions primarily through the SPi Group. Knowledge processing solutions contributed revenues of Php1,323 million in the first quarter of 2008, an increase of Php54 million, or 4%, from Php1,269 million in the same period in 2007 primarily as a result of the effects of the consolidation of the financial results of Springfield in April 2007. Knowledge processing solutions accounted for 51% and 52% of total service revenues of our ICT business in the first quarter of 2008 and 2007, respectively.

Customer Interaction Services

Customer interaction service revenues consist of: (i) handling of inbound calls for customer care, product inquiries, sales and technical support based on active minutes, billable hours and full-time equivalents; (ii) outbound calls for sales and collections based on active minutes, billable hours and full-time equivalents; and (iii) service income for e-mail handling, web chat, web co-browsing, data entry and knowledge processing solutions based on transaction volume.

We provide our customer interaction services primarily through *ePLDT Ventus*. Revenues relating to our customer interaction services business increased by Php85 million, or 11%, to Php867 million in the first quarter of 2008 from Php782 million in the same period in 2007 primarily due to the expansion of our facilities. In total, we own and operate approximately 6,490 seats with 5,050 customer service representatives, or CSRs, in the first quarter of 2008 compared with approximately 5,720 seats with 4,620 CSRs in the same period in 2007. In the first quarter of 2008, we have nine customer interaction service sites.

Customer interaction service revenues accounted for 34% and 32% of total service revenues of our ICT business in the first quarter of 2008 and 2007, respectively.

Internet and Online Gaming

Internet and online gaming service revenues consist of: (i) revenues derived from actual usage of the internet access network by prepaid subscribers; (ii) monthly service fees from postpaid corporate and consumer subscribers; (iii) one-time fees generated from the reselling of internet-related solutions such as security solutions and domain registration; (iv) franchise and royalty fees for *Netopia* internet cafés; (v) online gaming revenues from unique subscribers, including one-time sale of gaming cards and

electronic pins, and top-up fees upon actual consumption of gaming credits or after expiration of any unused peso value thereof.

Revenues from our internet and online gaming businesses increased by Php5 million, or 2%, to Php242 million in the first quarter of 2008 from Php237 million in the same period in 2007 primarily due to the increase in Infocom's revenues from customer service outsourcing. Our internet and online gaming business revenues accounted for 9% and 10% of total service revenues of our ICT business in the first quarter of 2008 and 2007, respectively.

Vitro™ Data Center

ePLDT operates an internet data center under the brand name *Vitro™* which 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 security services such as firewalls and managed firewalls.

Vitro™ revenues consist of: (i) monthly service fees derived from co-location services, server hosting, hardware and software maintenance services, website development and maintenance services, web hosting, data recovery security services and other value-added services; (ii) installation charges or one-time fees associated with the set-up of services and professional services of *Vitro™*'s certified professionals; and (iii) fees generated from the issuance of digital certificates and revenues derived from IT helpdesk/contact center solutions and terminals for credit, debit and credit card transactions.

In the first quarter of 2008, *Vitro™* contributed revenues of Php143 million, an increase of Php6 million, or 4%, from Php137 million in the same period in 2007 primarily due to an increase in co-location revenues and server hosting. *Vitro™* revenues accounted for 6% of service revenues of our ICT business in the first quarter of 2008 and 2007.

Please refer to *Note 9 – Investments in Associates and Joint Ventures* to the accompanying unaudited consolidated financial statements for further discussion on ePLDT's investments.

Non-service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In the first quarter of 2008, non-service revenues generated by our ICT business increased by Php7 million, or 21%, to Php40 million as compared with Php33 million in the same period in 2007 primarily due to higher revenues from sales of software and hardware licenses.

Interest Income

Interest income for our ICT business segment increased by Php2 million, or 67%, to Php5 million in the first quarter of 2008 from Php3 million in the same period in 2007 primarily due to a higher level of interest rates.

Loss on Derivative Transactions – net

Loss on derivative transactions – net of Php31 million in the first quarter of 2008 was primarily due to loss in the mark-to-market valuation recognized by our customer interaction service and knowledge processing solutions businesses on forward exchange contracts.

Others

Other income generated from our ICT business increased by Php10 million, or 125%, to Php18 million in the first quarter of 2008 as compared with Php8 million in the same period in 2007 primarily due to the recognition of interest income on ePLDT's investment in convertible securities of Stradcom International Holdings, Inc., or SIHI and gain on disposal of fixed assets. Please see *Note 13 – Investment in Debt Securities* to the accompanying unaudited consolidated financial statements for further discussion of our investment in Stradcom.

Expenses

Expenses associated with our ICT business totaled Php2,589 million in the first quarter of 2008, an increase of Php298 million, or 13%, from Php2,291 million in the same period in 2007 primarily due to the effects of the consolidation of the financial results of Springfield in April 2007 resulting in an increase in compensation and employee benefits, financing costs, gain on derivative transactions, amortization of intangibles, and communication, training and travel, partially offset by lower professional and other contracted services, depreciation and amortization, and asset impairment. As a percentage of our ICT total revenues, expenses related to our ICT business were 99% and 94% for in the first quarter of 2008 and 2007, respectively.

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

	Three Months Ended March 31,					
	2008	%	2007	%	Increase (Decrease)	
					Amount	%
	(in millions)					
ICT services:						
Compensation and employee benefits ⁽¹⁾	Php1,383	53	Php1,184	52	Php199	17
Professional and other contracted services	217	8	320	14	(103)	(32)
Depreciation and amortization	216	8	234	10	(18)	(8)
Rent	162	6	152	7	10	7
Repairs and maintenance	133	5	127	6	6	5
Communication, training and travel	128	5	102	4	26	25
Selling and promotions	89	4	65	3	24	37
Amortization of intangible assets	61	2	34	1	27	79
Financing costs – net	50	2	8	–	42	525
Taxes and licenses	33	1	19	1	14	74
Cost of sales	29	1	24	1	5	21
Insurance and security services	14	1	11	–	3	27
Foreign exchange losses – net	11	1	–	–	11	100
Asset impairment	(3)	–	3	–	(6)	(200)
Gain on derivative transactions – net	–	–	(42)	(1)	42	100
Other expenses	66	3	50	2	16	32
Total	Php2,589	100	Php2,291	100	298	13

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

Compensation and employee benefits increased by Php199 million, or 17%, to Php1,383 million largely due to the consolidation of Springfield in April 2007 and the expansion of our customer interaction services business.

Professional and other contracted services decreased by Php103 million, or 32%, to Php217 million primarily due to lower consultancy fees and subcontracted services incurred by the SPi Group related to its knowledge processing solutions.

Depreciation and amortization charges decreased by Php18 million, or 8%, to Php216 million primarily due to a decrease in the depreciable asset base of our customer interaction services business offset by an increase in asset base brought about by the consolidation of Springfield in April 2007.

Rent expenses increased by Php10 million, or 7%, to Php162 million primarily due to higher office space rentals and leased circuits from other carriers incurred by our customer interaction services business.

Repairs and maintenance expenses increased by Php6 million, or 5%, to Php133 million primarily due to higher maintenance costs for new customer interaction service facilities and the consolidation of Springfield.

Communication, training and travel expenses increased by Php26 million, or 25%, to Php128 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, and mailing and courier charges incurred by our customer interaction service and knowledge processing solution businesses.

Selling and promotion expenses increased by Php24 million, or 37%, to Php89 million mainly due to the SPi Group's higher advertising and marketing spending.

Amortization of intangible assets increased by Php27 million, or 79%, to Php61 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 unaudited consolidated financial statements for further discussion.

Financing costs – net increased by Php42 million, or 525%, to Php50 million in the first quarter of 2008 primarily due to a higher accretion on financial liabilities particularly the contingent consideration in relation to the Springfield acquisition in 2007 and a higher interest on loans and related items.

Taxes and licenses increased by Php14 million, or 74%, to Php33 million primarily due to the consolidation of Springfield in April 2007 and higher business-related taxes.

Cost of sales increased by Php5 million, or 21%, to Php29 million primarily due to higher sales of software licenses and hardware products.

Insurance and security services increased by Php3 million, or 27%, to Php14 million primarily due to higher premium costs and an increase in the value of assets insured.

Foreign exchange losses – net of Php11 million was primarily due to the loss on revaluation of net foreign currency-denominated liabilities due to the depreciation of the Philippine peso in the first quarter of 2008.

Other expenses increased by Php16 million, or 32%, to Php66 million mainly due to higher business-related costs, such as office supplies.

Benefit from Income Tax

Benefit from income tax increased by Php5 million, or 56%, to Php14 million in the first quarter of 2008 primarily due to the corresponding deferred tax effect of the amortization of intangible assets.

Net Income

In the first quarter of 2008, our ICT business segment registered a net income of Php32 million, a decrease of Php127 million, or 80%, from Php159 million in the same period in 2007 mainly as a result of the 13% increase in ICT-related expenses, partly offset by the 9% increase in ICT-related revenues and other income and higher benefit from income tax in the first quarter of 2008.

Liquidity and Capital Resources

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

	Three Months Ended March 31,	
	2008	2007
	(in millions)	
Cash Flows		
Net cash provided by operating activities	Php22,169	Php25,189
Net cash used in investing activities	12,919	13,667
<i>Capital expenditures</i>	3,051	5,937
Net cash used in financing activities	159	6,122
Net increase in cash and cash equivalents	9,062	5,439
	March 31,	December 31,
	2008	2007
	(in millions)	
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php55,471	Php53,372
Obligations under capital lease	12	15
	<u>55,483</u>	<u>53,387</u>
Current portion of interest-bearing financial liabilities:		
Notes payable	569	493
Long-term debt maturing within one year	7,459	6,775
Obligations under capital lease maturing within one year	192	481
Preferred stock subject to mandatory redemption	652	1,015
	<u>8,872</u>	<u>8,764</u>
Total interest-bearing financial liabilities	64,355	62,151
Total equity	99,339	112,511
	<u>Php163,694</u>	<u>Php174,662</u>
Other Financial Data		
Total assets	Php253,496	Php240,158
Property, plant and equipment – net	156,112	159,414
Cash and cash equivalents	26,509	17,447
Short-term investments	24,382	13,415

As at March 31, 2008, our consolidated cash and cash equivalents and short-term investments totaled Php50,891 million. Principal sources of consolidated cash and cash equivalents in the first quarter of 2008 were cash flows from operating activities amounting to Php22,169 million and drawings

from PLDT's, Smart's and ePLDT's debt facilities aggregating Php4,248 million. These funds were used principally for capital outlays of Php3,051 million, total debt principal payments of Php1,999 million, share buyback of Php331 million, interest payments of Php930 million and dividend payments of Php50 million.

Operating Activities

Our consolidated net cash flows from operating activities decreased by Php3,020 million, or 12%, to Php22,169 million in the first quarter of 2008 from Php25,189 million in the same period in 2007. A growing portion of our consolidated cash flow is generated by our wireless service business, which accounted for 60% and 59% of our total service revenues in the first quarter of 2008 and 2007. Service revenues from our fixed line and information and communications technology accounted for 33% and 7%, respectively, of our total service revenues in the first quarter of 2008, and 34% and 7%, respectively, in the same period in 2007.

Cash flows from operating activities of our wireless business amounted to Php15,253 million in the first quarter of 2008, a decrease of Php1,882 million, or 11%, compared with Php17,135 million in the same period in 2007. The decrease in our wireless business segment's cash flows from operating activities was a result of settlement of various payables in the first quarter of 2008. Likewise, cash flows from operating activities of our fixed line business decreased by Php942 million, or 12%, to Php6,610 million in the first quarter of 2008 compared with Php7,552 million in the same period in 2007. This decrease was primarily due to higher working capital requirements in our fixed line business in the first quarter of 2008. The overall decrease in our cash flows from operating activities was primarily due to a higher 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 March 31, 2008.

Prior to April 2006, under restrictive covenants in certain of its loan facilities, Smart was required to obtain, and since 2002 had obtained, waivers from Finnvera and certain of its lenders for all dividend payments made by Smart to PLDT. Due to the repayment of all loan facilities by April 2006 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 without the consent of its lenders, Smart is no longer subject to such restrictions. In March 2007, dividend payments received by PLDT from Smart amounted to Php8,000 million.

Investing Activities

Net cash used in investing activities amounted to Php12,919 million in the first quarter of 2008, a decrease of Php748 million, or 5%, from Php13,667 million in the same period in 2007 primarily due to a decrease in capital expenditures of Php2,886 million and redemption of SIHI's preferred shares of Php1,187 million in the first quarter of 2008, partially offset by an increase in short-term investments and investment in debt securities of Php3,305 million mainly due to Smart's increased investment in money market placements with over 90 days maturity.

Our consolidated capital expenditures in the first quarter of 2008 totaled Php3,051 million, a decrease of Php2,886 million, or 49%, from Php5,937 million in the same period in 2007 primarily due to PLDT's lower capital spending. Smart's capital spending of Php2,149 million in the first quarter of 2008 was used primarily to further upgrade its core, access and transmission network facilities, expand its wireless broadband facilities and acquire Cruztelco's Cluster 3 fixed line assets. PLDT's capital

spending of Php754 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 Php139 million was primarily used to fund its continued customer interaction services 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.

Financing Activities

On a consolidated basis, we used net cash of Php159 million in the first quarter of 2008 for financing activities, net of loan drawings by Smart and PLDT, a decrease of Php5,963 million compared with Php6,122 million in the same period in 2007. The net cash used in financing activities was mainly utilized for debt repayments, interest payments, and dividend payments distributed to PLDT common and preferred stockholders and buyback of PLDT's common stock.

Debt Financing

Additions to our consolidated long-term debt in the first quarter of 2008 totaled Php4,248 million 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 Php1,999 million and Php930 million, respectively, in the first quarter of 2008.

Our long-term debt increased by Php2,783 million, or 5%, to Php62,930 million in the first quarter of 2008, largely due to drawings from our term loan facilities and the depreciation of the Philippine peso in the first quarter of 2008 as compared with the peso appreciation in the same period in 2007 resulting to a higher peso equivalents of our foreign currency-denominated debts, partially offset by debt amortizations and prepayments. The debt levels of PLDT, Smart and Mabuhay increased by 5%, 5% and 1% to Php35,548 million, Php26,197 million and Php1,154 million, respectively, in the first quarter of 2008 as compared with the levels as at December 31, 2007.

In 2007, we conducted a consent solicitation of holders of our 11.375% Notes due 2012, 10.5% Notes due 2009 and 8.35% Notes due 2017, or the Notes, in respect of amendments to the terms of the Notes that allow PLDT greater flexibility to make certain restricted payments, pay dividends or make distributions, while reducing PLDT's permitted leverage ratios pursuant to the terms of the Notes. These amendments to the terms of the Notes became effective on December 3, 2007, the date on which PLDT made the applicable consent payments, after holders of more than 51% of the aggregate principal amount of the Notes gave their consents for these amendments to the terms of the Notes prior to the expiration of the consent solicitation period and after the execution of relevant amendments to the indentures governing the Notes on November 21, 2007.

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. The facility was drawn on March 27 and April 10, 2008 for US\$50 million each, respectively. The loan is payable over five years in 10 equal semi-annual installments starting September 29, 2008 with final repayment due on March 27, 2013.

Approximately Php25,943 million principal amount of our consolidated outstanding long-term debt as at March 31, 2008 is scheduled to mature over the period from 2008 to 2011. Of this amount, Php12,331 million is attributable to PLDT, Php12,428 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 unaudited consolidated financial statements.

Debt Covenants

Our debt instruments contain restrictive 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 unaudited consolidated financial statements for a detailed discussion of our debt covenants.

Financing Requirements

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

As a result of our strong cash flows and lower debt levels, we have increased our dividend payout ratio to 70% of 2007 earnings per share from 60% of 2006 earnings per share.

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. The total dividends declared last March 4, 2008 and paid on April 21, 2008 amounted to Php23,438 million.

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:

<u>Rating Agency</u>	<u>Credit Rating</u>	<u>Outlook</u>
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	Ba2 Positive
	Local Currency Corporate Family Rating	Baa2 Positive
Fitch Ratings, or Fitch	Long-term Foreign Currency Rating	BB+ Stable
	Long-term Local Currency Rating	BB+ Stable
	Long-term Foreign Currency Issuer Default Rating	BB+ Stable
	Long-term Local Currency Issuer Default Rating	BBB Stable
	National Long-term Rating	AAA(ph1) Stable

On March 19, 2008, Moody's affirmed our local currency 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.

On November 6, 2007, Standard and Poor's, Moody's and Fitch affirmed some of our local and foreign currency ratings following the consent solicitation announcement relating to the Notes to effect certain proposed amendments that would give us more flexibility to make investments and dividend payments. The affirmation also reflects our healthy financial and dominant market positions though counterbalanced by the uncertainty of the Philippines' political and economic environment. However, any future upward ratings would be more reflective of a stabilizing economic, political and social environment reducing such uncertainties.

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 Php3 million and Php36 million from the exercise by certain officers and executives of stock options in the first quarter of 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 Php2 million in the first quarter of 2008.

As part of our goal to maximize returns to our shareholders, we obtained on January 29, 2008 an approval from our board of directors to conduct a share buyback program for up to two million PLDT common shares. As at May 5, 2008, we acquired a total of 346,260 shares of common stock at a weighted average price of Php2,720 for a total amount of Php942 million. Please refer to *Note 17 – Equity* to the accompanying unaudited consolidated financial statements for further details.

Cash dividend payments in the first quarter of 2008 amounted to Php50 million compared with Php62 million paid to preferred shareholders in the same period in 2007. In the first quarter of 2008, there were 188.9 million PLDT common shares outstanding compared with 188.7 million in the same period 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 unaudited consolidated financial statements.

Commercial Commitments

As at March 31, 2008, our outstanding commercial commitments, in the form of letters of credit, amounted to Php1,132 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 risk. 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 unaudited consolidated financial statements.

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 recent periods, we do not believe inflation has had a material impact on our operations. The average inflation rate in the Philippines in the first quarter of 2008 was 5.6% compared with 2.9% in the same period in 2007.

PART II – OTHER INFORMATION

Acquisition of Connectivity Unlimited Resource Enterprise, or CURE

On April 28, 2008, Smart acquired the entire issued and outstanding capital stock of PH Communications Holdings Corporation, or PH Communications, and Francom Holdings, Inc., or FHI, which collectively own 100% of CURE for the total amount of Php420 million. PH Communications and Francom Holdings own 96.57% and 3.43%, respectively, of CURE. Smart also intends to directly invest up to Php210 million in CURE, in the form of subscriptions for new shares of CURE. The fresh funds will be used by CURE for working capital purposes.

The acquisition dovetails with Smart's previously announced 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.

Related Party Transactions

For a detailed discussion of the related party transactions, see *Note 22 – Related Party Transactions* to the accompanying unaudited consolidated financial statements.

ANNEX – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of unaudited consolidated receivables as at March 31, 2008:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
	(In Millions)				
Corporate subscribers	Php9,094	Php1,650	Php1,360	Php858	Php5,226
Retails subscribers	7,821	2,065	1,146	339	4,271
Foreign administrations	4,096	1,423	1,127	532	1,014
Domestic carriers	1,024	233	85	108	598
Dealers, agents and others	2,265	1,995	75	14	181
Total	Php24,300	Php7,366	Php3,793	Php1,851	Php11,290
Less: Allowance for doubtful accounts ..	<u>12,397</u>				
Total Receivables - net	<u>Php11,903</u>				

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the first quarter of 2008 to be signed on its behalf by the undersigned thereunto duly authorized.


Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title:



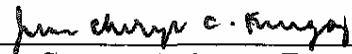
NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title:



ANABELLE LIM-CHUA
Senior Vice President and Treasurer
(Principal Financial Officer)

Signature and Title:



JUNE CHERYL A. CABAL-FURIGAY
Vice President and Controller
(Principal Accounting Officer)

May 6, 2008