

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

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March 3, 2009

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, we submit herewith three (3) 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 year ended December 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
Contact Person

816-8534
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

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As at January 31, 2009
Total No. of Stockholders

Total Amount of Borrowings
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Domestic

N/A
Foreign

To be accomplished by SEC Personnel concerned

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TABLE OF CONTENTS

	<u>Page</u>
PART I – FINANCIAL INFORMATION	1
Item 1. Financial Statements	1
Item 2. Management’s Discussion and Analysis of Financial	
Condition and Results of Operations	1
Financial Highlights and Key Performance Indicators.....	2
Overview	3
Results of Operations	4
Wireless	5
Total Revenues	5
Expenses	10
Other Income (Expenses)	12
Provision for Income Tax	13
Net Income	13
Fixed Line.....	13
Total Revenues	13
Expenses	16
Other Income (Expenses)	18
Provision for Income Tax	18
Net Income	19
Information and Communications Technology	19
Total Revenues	19
Expenses	20
Other Income (Expenses)	22
Benefit from Income Tax.....	22
Net Loss.....	22
Liquidity and Capital Resources	23
Operating Activities	23
Investing Activities	24
Financing Activities	25
Contractual Obligations and Commercial Commitments	29
Quantitative and Qualitative Disclosures about Market Risks	29
Impact of Inflation and Changing Prices	30
PART II – OTHER INFORMATION	30
Related Party Transactions	31
ANNEX – Aging of Accounts Receivable	A-1
SIGNATURES	S-1

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Our consolidated financial statements as at December 31, 2008 and December 31, 2007 and for the years ended December 31, 2008 and 2007 and related notes (pages F-1 to F-107) 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 audited 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 audited consolidated financial statements and the related notes. Our audited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with Philippine Financial Reporting Standards, or PFRS, which has certain differences from International Financial Reporting Standards as issued by the International Accounting Standards Board. PFRS differ in certain significant respects from generally accepted accounting principles in the U.S.

The financial information appearing in this report and in the accompanying audited 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 audited consolidated financial statements were made based on the exchange rate of Php47.647 to US\$1.00, the volume weighted average exchange rate at December 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

	December 31,		Increase (Decrease)	
	2008	2007	Amount	%
(in millions, except for operational data, exchange rates and earnings per common share)				
Consolidated Balance Sheets				
Total assets	Php252,558	Php240,158	Php12,400	5
Property, plant and equipment – net	160,326	159,414	912	1
Cash and cash equivalents and short-term investments	40,354	30,862	9,492	31
Total equity	106,969	112,511	(5,542)	(5)
Notes payable and long-term debt	73,911	60,640	13,271	22
Net debt ⁽¹⁾ to equity ratio	0.31x	0.26x	–	–
	Years Ended December 31,		Increase (Decrease)	
	2008	2007	Amount	%
Consolidated Statements of Income				
Revenues	Php145,582	Php137,958	Php7,624	6
Expenses	85,786	84,456	1,330	2
Other expenses	5,305	245	5,060	2,065
Income before income tax	54,491	53,257	1,234	2
Net income attributable to equity holders of PLDT	34,635	36,004	(1,369)	(4)
Pre-tax income margin	37%	39%	–	–
Net income margin	24%	26%	–	–
Earnings per common share				
Basic	181.65	188.42	(6.77)	(4)
Diluted	181.64	187.53	(5.89)	(3)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	Php78,302	Php77,418	884	1
Net cash used in investing activities	17,014	31,319	(14,305)	(46)
<i>Capital expenditures</i>	25,203	24,824	379	2
Net cash used in financing activities	45,464	44,819	645	1
Operational Data				
Number of cellular subscribers	35,224,604	30,041,030	5,183,574	17
Number of fixed line subscribers	1,782,356	1,724,702	57,654	3
Number of broadband subscribers	995,916	579,095	416,821	72
<i>Fixed Line</i>	432,583	264,291	168,292	64
<i>Wireless</i>	563,333	314,804	248,529	79
Number of employees	29,904	30,255	(351)	(1)
<i>Fixed Line</i>	7,813	8,080	(267)	(3)
<i>Wireless</i>	5,602	5,415	187	3
<i>Information and Communications Technology</i>	16,489	16,760	(271)	(2)
Exchange Rates				
	Php per US\$			
December 31, 2008	Php47.647			
December 31, 2007	41.411			
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, including current portion).

Overview

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

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Pilipino Telephone Corporation, or Piltel, and Connectivity Unlimited Resources Enterprises, or CURE, our cellular service providers; Smart Broadband, Inc., or SBI, and Airborne Access Corporation, or Airborne Access, our wireless broadband providers; Wolfpac Mobile, Inc., or Wolfpac, our wireless content operator; Mabuhay Satellite Corporation, or Mabuhay Satellite and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator;
- *Fixed Line* — fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Maratel, Inc., Piltel (on June 4, 2008, PLDT acquired the fixed line assets of Piltel), PLDT Global Corporation, or PLDT Global, Smart-NTT Multimedia, Inc., and Bonifacio Communications Corporation, which together account for approximately 2% of our consolidated fixed line subscribers; and
- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, 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, netGames, Inc., or netGames, and Level Up!, Inc., or Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 9 – Investments in Associates and Joint Ventures* to the accompanying consolidated financial statements.

We registered revenues of Php145,582 million in 2008, an increase of Php7,624 million, or 6%, as compared with Php137,958 million in 2007 primarily due to an increase in our service revenues by Php7,395 million resulting largely from an increase in the service revenues of our wireless business, which was primarily due to an increase in the number of our cellular and broadband subscribers.

Expenses increased by Php1,330 million, or 2%, to Php85,786 million in 2008 from Php84,456 million in 2007, largely resulting from increases in asset impairment, repairs and maintenance, rent and other operational-related expenses, which were partly offset by lower depreciation and amortization, and professional and other contracted services.

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



Net income attributable to equity holders of PLDT decreased by Php1,369 million, or 4%, to Php34,635 million in 2008 from Php36,004 million in 2007. The decrease is mainly attributable to increases in consolidated expenses by Php1,330 million, other expenses by Php5,060 million and provision for income tax by Php1,914 million due to higher taxable income in 2008, which were partially offset by the 6% increase in consolidated revenues by Php7,624 million. Likewise, our basic and diluted earnings per common share decreased to Php181.65 and Php181.64 in 2008 from Php188.42 and Php187.53 in 2007, respectively. At the end of 2008, as a result of the share buyback program implemented in 2008, there were 187.5 million PLDT common shares outstanding compared with 188.7 million at the end of 2007.

Results of Operations

The table below shows the contribution by each of our business segments to our revenues, expenses and net income (loss) for the years ended December 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 year ended December 31, 2008									
Revenues	Php95,597	Php49,686	Php10,983	(Php10,684)	Php145,582				
Expenses	47,589	35,733	13,267	(10,803)	85,786				
Other expenses	2,640	2,476	1	188	5,305				
Income (loss) before income tax	45,368	11,477	(2,285)	(69)	54,491				
Net income (loss)	29,333	8,220	(2,186)	(69)	35,298				
Net income (loss) attributable to equity holders of PLDT	28,458	8,215	(1,969)	(69)	34,635				
For the year ended December 31, 2007									
Revenues	88,553	48,832	10,322	(9,749)	137,958				
Expenses	45,399	37,891	11,005	(9,839)	84,456				
Other income (expenses)	2,577	(3,273)	472	(21)	(245)				
Income (loss) before income tax	45,731	7,668	(211)	69	53,257				
Net income (loss)	30,730	5,273	(94)	69	35,978				
Net income attributable to equity holders of PLDT	30,635	5,270	30	69	36,004				
Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	Amount	%
Revenues	Php7,044	8	Php854	2	Php661	6	(Php935)	Php7,624	6
Expenses	2,190	5	(2,158)	(6)	2,262	21	(964)	1,330	2
Other income (expenses)	(5,217)	(202)	797	(24)	(473)	(100)	(167)	(5,060)	2,065
Income (loss) before income tax	(363)	(1)	3,809	50	(2,074)	983	(138)	1,234	2
Net income (loss)	(1,397)	(5)	2,947	56	(2,092)	(2,226)	(138)	(680)	(2)
Net income (loss) attributable to equity holders of PLDT	(2,177)	(7)	2,945	56	(1,999)	(6,663)	(138)	(1,369)	(4)

Wireless

Total Revenues

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

	Years Ended December 31,					
	2008		2007		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Wireless Services:						
Service revenues						
Cellular	Php87,518	92	Php82,334	93	Php5,184	6
Wireless broadband, satellite and others	6,075	6	4,165	5	1,910	46
	93,593	98	86,499	98	7,094	8
Non-Service Revenues						
Sale of cellular handsets and SIM-packs	2,004	2	2,054	2	(50)	(2)
Total Wireless Revenues	Php95,597	100	Php88,553	100	Php7,044	8

Service Revenues

Our wireless service revenues increased by Php7,094 million, or 8%, to Php93,593 million in 2008 as compared with Php86,499 million in 2007, mainly as a result of the growth in the cellular and wireless broadband subscriber base. Short messaging service, or SMS, benefited from the larger subscriber base. Voice revenues also increased due to the growth in international inbound and outbound call volumes in 2008 compared with 2007. Such increases were partially offset by the unfavorable effect of the appreciation of the Philippine peso to the U.S. dollar exchange rate on our dollar-linked revenues. As a percentage of our total wireless revenues, service revenues contributed 98% in each of the years 2008 and 2007.

Cellular Service

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



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

	Years Ended December 31,			
	2008	2007	Increase	
			Amount	%
(in millions)				
Cellular service revenues	Php87,518	Php82,334	Php5,184	6
<i>By service type</i>	85,079	80,197	4,882	6
Prepaid	78,743	74,284	4,459	6
Postpaid	6,336	5,913	423	7
<i>By component</i>	85,079	80,197	4,882	6
Voice	37,287	36,105	1,182	3
Data	47,792	44,092	3,700	8
<i>Others</i> ⁽¹⁾	2,439	2,137	302	14

⁽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 December 31,			
	2008	2007	Increase	
			Amount	%
Cellular subscriber base	35,224,604	30,041,030	5,183,574	17
Prepaid	34,826,468	29,699,150	5,127,318	17
<i>Smart</i>	20,501,617	19,997,324	504,293	3
<i>Piltel</i>	14,308,493	9,701,826	4,606,667	47
<i>CURE (acquired on April 28, 2008)</i>	16,358	–	16,358	100
Postpaid	398,136	341,880	56,256	16

	Years Ended December 31,			
	2008	2007	Increase (Decrease)	
			Amount	%
(in millions)				
Systemwide traffic volumes				
Calls (in minutes)	6,708	6,355	353	6
Domestic – outbound	3,810	3,799	11	–
International	2,898	2,556	342	13
<i>Inbound</i>	2,677	2,355	322	14
<i>Outbound</i>	221	201	20	10
SMS count	249,691	227,028	22,663	10
Text messages	248,051	225,083	22,968	10
Domestic	247,751	224,818	22,933	10
<i>Bucket-Priced</i>	223,373	199,326	24,047	12
<i>Standard</i>	24,378	25,492	(1,114)	(4)
International	300	265	35	13
Value-Added Services	1,614	1,903	(289)	(15)
Financial Services	26	42	(16)	(38)

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

in 2007, and accounted for 7% of voice and data revenues in each of the years 2008 and 2007.

Voice Services

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

Data Services

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

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

	Years Ended December 31,			
	2008	2007	Increase (Decrease)	
		(in millions)	Amount	%
Text messaging				
Domestic	Php43,330	Php39,430	Php3,900	10
<i>Bucket-Priced</i>	27,245	20,141	7,104	35
<i>Standard</i>	16,085	19,289	(3,204)	(17)
International	1,877	1,835	42	2
	<u>45,207</u>	<u>41,265</u>	<u>3,942</u>	<u>10</u>
Value-added services				
Standard ⁽¹⁾	1,469	1,802	(333)	(18)
Rich Media ⁽²⁾	627	352	275	78
<i>Pasa Load</i>	444	594	(150)	(25)
	<u>2,540</u>	<u>2,748</u>	<u>(208)</u>	<u>(8)</u>
Financial services				
<i>Smart Money</i>	41	75	(34)	(45)
Mobile Banking	4	4	-	-
	<u>45</u>	<u>79</u>	<u>(34)</u>	<u>(43)</u>
Total	<u>Php47,792</u>	<u>Php44,092</u>	<u>Php3,700</u>	<u>8</u>

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

(2) Includes Multimedia Messaging System, internet browsing, General Packet Radio Service, or GPRS, etc.

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

in 2007.

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

Value-added services, which contributed revenues of Php2,540 million in 2008, decreased by Php208 million, or 8%, from Php2,748 million in 2007 primarily due to lower usage of standard services and *Pasa Load* owing to the introduction of low-denomination top-ups, partially offset by higher usage of rich media services in 2008 as compared with 2007.

Subscriber Base, ARPU and Churn Rates

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

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

	Years Ended December 31,			
	2008	2007	Increase (Decrease)	
			Amount	%
Prepaid	5,127,318	5,842,329	(715,011)	(12)
Smart	504,293	3,114,882	(2,610,589)	(84)
Piltel	4,606,667	2,727,447	1,879,220	69
CURE	16,358	–	16,358	100
Postpaid	56,256	23,317	32,939	141
Total	5,183,574	5,865,646	(682,072)	(12)

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

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

* Net monthly ARPU is calculated based on revenues net of discounts and allocated content-provider costs and interconnection income net of interconnection expense.

Prepaid service revenues consist mainly of charges for subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU in 2008 was Php254, a decrease of 11%, compared with Php285 in 2007. The decrease was primarily due to a decline in the average outbound domestic voice, text messaging, value-added services and inbound revenue per subscriber in 2008 compared with 2007. On a net basis, prepaid blended average monthly ARPU in 2008 was Php203, a decrease of 13%, compared with Php233 in 2007.

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

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

	Prepaid				Postpaid	
	Smart		Piltel		Smart	
	Gross	Net	Gross	Net	Gross	Net
2008						
First Quarter	Php292	Php230	Php207	Php163	Php2,013	Php1,472
Second Quarter	294	232	199	159	2,134	1,510
Third Quarter	285	223	178	148	2,078	1,505
Fourth Quarter	291	234	192	162	2,037	1,445
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

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

The average monthly churn rate for Smart's postpaid subscribers was 1.2% for 2008 and 1.3% in 2007. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is disconnected. Within this 44-day period, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

Wireless Broadband, Satellite and Other Services

Our revenues from wireless broadband, satellite and other services consist mainly of wireless broadband service revenues from SBI, rentals received for the lease of Mabuhay Satellite's transponders, charges for ACeS Philippines' satellite information and messaging services and service revenues generated from PLDT Global's subsidiaries. Gross revenues from these services in 2008 amounted to Php6,075 million, an increase of Php1,910 million, or 46%, from Php4,165 million in 2007 principally due to the growth in our wireless broadband business and the peso depreciation in 2008. This was partially offset by lower satellite transponder rental revenues owing to lower rental charges

and a decrease in the number of transponders being leased out.

SBI offers a number of wireless broadband services and had 547,090 subscribers in 2008 as compared with 301,738 in 2007. *SmartBro*, SBI's fixed wireless broadband service linked to Smart's wireless broadband-enabled base stations, allows subscribers to connect to the internet using an outdoor aerial antenna installed in a subscriber's home. Wireless broadband revenues contributed Php4,327 million to wireless service revenues in 2008, increasing by Php1,938 million, or 81%, from Php2,389 million in 2007.

On November 22, 2007, we introduced *SmartBro Plug-It* which offers instant internet access, through the use of a wireless modem, in places where there is Smart network coverage. Subscribers to this plan simply have to plug the data modem in order to access the internet with speeds ranging from 384 to 512 kbps. The monthly service fee of Php799 includes 40 hours per month of internet usage. A one-time charge for the modem costs Php1,200. On April 13, 2008, we launched the *SmartBro Plug-It Prepaid* which offers 30-minute internet access for every Php10 worth of load.

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

Non-service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues decreased by Php50 million, or 2%, to Php2,004 million in 2008 as compared with Php2,054 million in 2007 primarily due to lower average retail price per SIM-pack and a lower quantity of phonekits sold, partly offset by a higher volume of SIM-packs and broadband data modems sold in 2008.

Expenses

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

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



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

	Years Ended December 31,					
	2008		2007		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Wireless Services:						
Depreciation and amortization	Php11,975	25	Php12,202	27	(Php227)	(2)
Rent	9,267	20	8,751	19	516	6
Compensation and employee benefits ⁽¹⁾	5,433	11	4,608	10	825	18
Cost of sales	4,236	9	4,446	10	(210)	(5)
Repairs and maintenance	4,230	9	3,634	8	596	16
Selling and promotions	3,781	8	3,803	8	(22)	(1)
Professional and other contracted services	2,529	5	3,238	7	(709)	(22)
Taxes and licenses	1,872	4	1,348	3	524	39
Communication, training and travel	1,091	2	1,083	3	8	1
Asset impairment	1,006	2	563	1	443	79
Provisions	897	2	–	–	897	100
Insurance and security services	722	2	783	2	(61)	(8)
Amortization of intangible assets	133	–	158	–	(25)	(16)
Other expenses	417	1	782	2	(365)	(47)
Total	Php47,589	100	Php45,399	100	Php2,190	5

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Income (Expenses)

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

	Years Ended December 31,			
	2008	2007	Change	
			Amount	%
	(in millions)			
Other Income (Expenses)				
Interest income	Php1,197	Php1,186	Php11	1
Financing costs	(2,029)	(2,299)	270	12
Foreign exchange gain (loss) – net	(1,771)	2,649	(4,420)	(167)
Gain (loss) on derivative transactions – net	(241)	278	(519)	(187)
Others	204	763	(559)	(73)
Total	(Php2,640)	Php2,577	(Php5,217)	(202)

Our wireless business segment generated other expenses of Php2,640 million in 2008, a change of Php5,217 million, or 202%, from other income of Php2,577 million in 2007 primarily due to the

recognition in 2008 of net foreign exchange losses of Php1,771 million on account of a loss on revaluation of net foreign currency-denominated liabilities owing to the depreciation of the Philippine peso compared with a net foreign exchange gain of Php2,649 million in 2007 and a net loss on derivative transactions of Php241 million in 2008 relating to the loss in the mark-to-market valuation of forward contracts and embedded derivatives on service and purchase contracts in 2008 compared with a net gain on derivative transactions of Php278 million in 2007.

Provision for Income Tax

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

Net Income

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

Fixed Line

Total Revenues

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

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

	Years Ended December 31,					
	2008		2007		Increase (Decrease)	
	%	%	Amount	%		
	(in millions)					
Fixed line services:						
Service revenues						
Local exchange	Php15,923	32	Php16,205	33	(Php282)	(2)
International long distance	7,063	14	8,674	18	(1,611)	(19)
National long distance	6,207	13	6,338	13	(131)	(2)
Data and other network	18,607	37	15,921	32	2,686	17
Miscellaneous	1,466	3	1,413	3	53	4
	<u>49,266</u>	<u>99</u>	<u>48,551</u>	<u>99</u>	<u>715</u>	<u>1</u>
Non-service revenues						
Sale of computers	420	1	281	1	139	49
	<u>420</u>	<u>1</u>	<u>281</u>	<u>1</u>	<u>139</u>	<u>49</u>
Total Fixed Line Revenues	<u><u>Php49,686</u></u>	<u><u>100</u></u>	<u><u>Php48,832</u></u>	<u><u>100</u></u>	<u><u>Php854</u></u>	<u><u>2</u></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 Php715 million, or 1%, to Php49,266 million in 2008 from Php48,551 million 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, and miscellaneous services, partially offset by the

decrease in our international long distance, local exchange and national long distance services.

Local Exchange Service

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

	Years Ended December 31,			
	2008	2007	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php15,923	Php16,205	(Php282)	(2)
Number of fixed line subscribers	1,782,356	1,724,702	57,654	3
Postpaid	1,533,687	1,479,647	54,040	4
Prepaid	248,669	245,055	3,614	1
Number of fixed line employees	7,813	8,080	(267)	(3)
Number of fixed line subscribers per employee	228	213	15	7

Revenues from our local exchange service decreased by Php282 million, or 2%, to Php15,923 million in 2008 from Php16,205 million in 2007 primarily owing to a decrease in average revenue per user on account of lower fixed charges due to bundling of services, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLDT Landline Plus*, higher bundled voice and data services and higher service connection charges. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 32% in 2008 as compared with 33% in 2007.

In March 2007, PLDT launched 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 December 31, 2008, there were a total of 125,621 active *PLDT Landline Plus* subscribers, of which 61,604 and 64,017 were postpaid and prepaid subscribers, respectively.

International Long Distance Service

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

	Years Ended December 31,			
	2008	2007	Decrease	
			Amount	%
Total international long distance service revenues (in millions)	Php7,063	Php8,674	(Php1,611)	(19)
Inbound	5,667	7,127	(1,460)	(20)
Outbound	1,396	1,547	(151)	(10)
International call volumes (in million minutes, except call ratio)	2,024	2,280	(256)	(11)
Inbound	1,786	2,007	(221)	(11)
Outbound	238	273	(35)	(13)
Inbound-outbound call ratio	7.5:1	7.4:1	-	-

Our total international long distance service revenues decreased by Php1,611 million, or 19%, to Php7,063 million in 2008 from Php8,674 million in 2007 primarily due to the average appreciation of the Philippine peso, a decrease in average settlement rate per minute 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 14% in 2008 from 18% in 2007.

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

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

National Long Distance Service

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

	Years Ended December 31,			
	2008	2007	Decrease	
			Amount	%
Total national long distance service revenues (in millions)	Php6,207	Php6,338	(Php131)	(2)
National long distance call volumes (in million minutes)	1,944	2,183	(239)	(11)

Our national long distance service revenues decreased by Php131 million, or 2%, to Php6,207 million in 2008 from Php6,338 million in 2007 primarily due to a decrease in call volumes. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 13% in 2008 and 2007.

Data and Other Network Services

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

	Years Ended December 31,			
	2008	2007	Increase (Decrease)	
			Amount	%
Data and other network service revenues (in millions)	Php18,607	Php15,921	Php2,686	17
Number of DSL broadband subscribers	432,583	264,291	168,292	64
Number of PLDT Vibe narrowband subscribers	101,411	230,995	(129,584)	(56)

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

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

DSL contributed revenues of Php5,360 million in 2008, an increase of Php1,480 million, or 38%, from Php3,880 million in 2007 primarily due to an increase in the number of subscribers, which was partially offset by lower ARPU as a result of launching of lower-priced plans as part of promotions. DSL subscribers increased by 64% to 432,583 in 2008 compared with 264,291 subscribers in 2007.

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

The continued growth in data services revenues can be attributed to several product offerings. The steady demand for dedicated connectivity or private networking from the corporate market using PLDT's traditional international and domestic data offerings – Fibernet, Arcstar, other Global Service Providers such as BT-infonet, Orange Business and Verizon; ISDN has been increasingly popular with corporate customers, especially the Primary Rate Interface type, I-Gate, Diginet, BRAINS, IP-VPN and *Shops.work*, among others – continue to provide us with a stable revenue source.

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

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. In 2008, these revenues improved by Php53 million, or 4%, to Php1,466 million from Php1,413 million in 2007 mainly due to an increase in facilities management fees and rental income owing to higher co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of the years 2008 and 2007.

Non-service Revenues

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

Expenses

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



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

	Years Ended December 31,					
	2008	%	2007	%	Increase (Decrease)	
			(in millions)		Amount	%
Fixed line services:						
Depreciation and amortization	Php11,901	33	Php15,477	41	(Php3,576)	(23)
Compensation and employee benefits ⁽¹⁾	9,093	25	10,411	27	(1,318)	(13)
Repairs and maintenance	4,634	13	3,772	10	862	23
Rent	2,492	7	1,799	5	693	39
Professional and other contracted services	2,143	6	1,727	5	416	24
Selling and promotions	1,715	5	1,552	4	163	11
Asset impairment	888	3	43	–	845	1,965
Taxes and licenses	769	2	877	2	(108)	(12)
Communication, training and travel	608	2	466	1	142	30
Insurance and security services	487	1	439	1	48	11
Cost of sales	356	1	300	1	56	19
Provisions	1	–	666	2	(665)	(100)
Other expenses	646	2	362	1	284	78
Total	Php35,733	100	Php37,891	100	(Php2,158)	(6)

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

Depreciation and amortization charges decreased by Php3,576 million, or 23%, to Php11,901 million in 2008 due to a lower depreciable asset base in 2008 as compared with 2007.

Compensation and employee benefits expenses decreased by Php1,318 million, or 13%, to Php9,093 million primarily due to a decrease in pension benefits as a result of a lower salary increase assumption in the 2008 actuarial valuation of defined benefit pension plans and lower LTIP costs. For further discussion on our LTIP, please see *Note 23 – Share-based Payments and Employee Benefits* to the accompanying consolidated financial statements.

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

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

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

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

Asset impairment increased by Php845 million to Php888 million mainly due to higher provision for doubtful accounts and inventory obsolescence in 2008.

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

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

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

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

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

Other Income (Expenses)

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

	Years Ended December 31,			
	2008	2007	Change	
			Amount	%
		(in millions)		
Other Income (Expenses)				
Interest income	Php448	Php296	Php152	51
Financing costs	(3,903)	(4,657)	754	16
Foreign exchange gain (loss) – net	(4,513)	465	(4,978)	(1,071)
Gain (loss) on derivative transactions – net	4,141	(1,530)	5,671	371
Others	1,351	2,153	(802)	(37)
	<u>(Php2,476)</u>	<u>(Php3,273)</u>	<u>Php797</u>	<u>(24)</u>

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

Provision for Income Tax

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

Net Income

In 2008, our fixed line business segment contributed a net income of Php8,220 million, an increase of Php2,947 million, or 56%, as compared with Php5,273 million in 2007 mainly as a result of higher service revenues by Php715 million, lower fixed line-related expenses by Php2,158 million and a decrease in other expenses by Php797 million.

Information and Communications Technology

Total Revenues

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

In 2008, our ICT business generated revenues of Php10,983 million, an increase of Php661 million, or 6%, from Php10,322 million in 2007. This increase was primarily due to the continued growth of our data center and customer interaction services, as well as the steady revenue contribution of our knowledge processing solutions and internet and online gaming businesses.

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

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

Service Revenues

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

Knowledge Processing Solutions

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

Customer Interaction Services

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

Internet and Online Gaming

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

Data Center

ePLDT operates an internet data center under the brand name *Vitro*TM 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.

In 2008, our data center contributed revenues of Php767 million, an increase of Php172 million, or 29%, from Php595 million in 2007 primarily due to an increase in co-location revenues and server hosting. Our data center revenues accounted for 7% and 6% of service revenues of our ICT business in 2008 and 2007, respectively.

Non-service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In 2008, non-service revenues generated by our ICT business increased by Php299 million, or 112%, to Php566 million as compared with Php267 million in 2007 primarily due to higher revenues from sales of software and hardware licenses.

Expenses

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

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

	Years Ended December 31,					
	2008		2007		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
ICT services:						
Compensation and employee benefits ⁽¹⁾	Php6,131	46	Php5,455	50	Php676	12
Asset impairment	2,286	17	711	6	1,575	222
Depreciation and amortization	833	6	934	8	(101)	(11)
Professional and other contracted services	747	6	1,129	10	(382)	(34)
Rent	665	5	620	6	45	7
Cost of sales	660	5	381	3	279	73
Repairs and maintenance	573	4	504	5	69	14
Communication, training and travel	573	4	523	5	50	10
Amortization of intangible assets	244	2	232	2	12	5
Selling and promotions	203	2	194	2	9	5
Taxes and licenses	98	1	94	1	4	4
Insurance and security services	61	–	49	–	12	24
Other expenses	193	2	179	2	14	8
Total	Php13,267	100	Php11,005	100	Php2,262	21

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

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

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

Depreciation and amortization charges decreased by Php101 million, or 11%, to Php833 million primarily due to a decrease in the depreciable asset base of our customer interaction services business.

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

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

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

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

Communication, training and travel expenses increased by Php50 million, or 10%, to Php573 million primarily due to increased bandwidth and information system charges, combined with an

increase in local and foreign travel costs incurred by our customer interaction service and knowledge processing solution businesses.

Amortization of intangible assets increased by Php12 million, or 5%, to Php244 million in relation to the acquisition of Springfield by SPi in April 2007. Please see *Note 11 – Goodwill and Intangible Assets* to the accompanying consolidated financial statements for further discussion.

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

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

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

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

Other Income (Expenses)

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

	Years Ended December 31,			
	2008	2007	Change	
			Amount	%
	(in millions)			
Other Income (Expenses)				
Foreign exchange gain (loss) – net	Php93	(Php138)	Php231	167
Interest income	22	21	1	5
Financing costs	(172)	(132)	(40)	(30)
Gain (loss) on derivative transactions – net	(59)	138	(197)	(143)
Others	115	583	(468)	(80)
Total	(Php1)	Php472	(Php473)	(100)

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

Benefit from Income Tax

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

Net Loss

In 2008, our ICT business segment registered a net loss of Php2,186 million as compared with Php94 million in 2007 mainly as a result of the 21% increase in ICT-related expenses which more than

offset the 6% increase in total revenues generated by our ICT business in 2008, and lower benefit from income tax in 2008 as compared with 2007.

Liquidity and Capital Resources

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

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

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

Operating Activities

Our consolidated net cash flows from operating activities increased by Php884 million, or 1%, to Php78,302 million in 2008 from Php77,418 million in 2007. A large portion of our consolidated cash

flow is generated by our wireless service business, which accounted for 61% and 60% of our total service revenues in 2008 and 2007, respectively. Service revenues from our fixed line business and ICT business accounted for 32% and 7%, respectively, of our total service revenues in 2008, and 33% and 7%, respectively, in 2007.

Cash flows from operating activities of our wireless business amounted to Php42,780 million in 2008, a decrease of Php6,836 million, or 14%, compared with Php49,616 million in 2007. The decrease in our wireless business segment's cash flows from operating activities was a result of higher prepayment of leased circuits and higher income tax paid partially offset by a lower settlement of various payables in 2008. Likewise, cash flows from operating activities of our ICT business decreased by Php777 million, or 31%, to Php1,752 million in 2008 compared with Php2,529 million in 2007 mainly due to higher settlement of various liabilities. Cash flows from operating activities of our fixed line business increased by Php8,520 million, or 34%, to Php33,794 million in 2008 compared with Php25,274 million in 2007. This increase was primarily due to lower settlement of various liabilities and increase in advance payments received from various leased circuit contracts in 2008. The overall increase in our cash flows from operating activities was primarily due to lower level of settlement of various current liabilities, partially offset by higher billings of accounts receivables and higher income taxes paid in 2008. We believe that our continuing increase in cash flows from operating activities on a consolidated basis will allow us to satisfy our current liabilities as our current ratio is less than 1:1 as at December 31, 2008.

Following the repayment by Smart by April 2006 of all its loan facilities that contained restrictive covenants, Smart is no longer required to seek consent from its lenders to pay dividends, redeem preferred shares, make distributions to PLDT or otherwise provide funds to PLDT or any associate. In 2008 and 2007, dividend payments received by PLDT from Smart amounted to Php24,200 million and Php26,927 million, respectively.

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

Investing Activities

Net cash used in investing activities amounted to Php17,014 million in 2008, a decrease of Php14,305 million, or 46%, from Php31,319 million in 2007. The decrease resulted from a combination of: (1) higher proceeds from the maturity of short-term investments of Php12,898 million; (2) redemption of SIHI's preferred shares of Php2,676 million in 2007; (3) lower payments for purchase of subsidiaries, including investments in associates by Php1,534 million; (4) higher investment in debt securities of Php3,193 million; (5) increase in capital expenditures of Php379 million in 2008; and (6) higher proceeds from disposal of property, plant and equipment of Php62 million.

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

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

Financing Activities

On a consolidated basis, we used net cash of Php45,464 million in 2008 for financing activities, net of loan drawings by Smart and PLDT, an increase of Php645 million compared with Php44,819 million in 2007. The net cash used in financing activities was mainly utilized for dividend payments distributed to PLDT common and preferred stockholders, buyback of PLDT's common stock, debt repayments and interest payments.

Debt Financing

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

Our long-term debt increased by Php13,211 million, or 22%, to Php73,358 million in 2008, largely due to drawings from our term loan facilities and the depreciation of the Philippine peso in 2008 as compared with the peso appreciation in 2007 resulting to higher peso equivalents of our foreign currency-denominated debts, partially offset by debt amortizations and prepayments. The debt levels of PLDT and Smart increased by 14% and 36% to Php38,823 million and Php33,898 million, respectively, while the debt level of Mabuhay decreased by 47% to Php610 million in 2008 as compared with the levels as at December 31, 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. The outstanding balance of this loan as at December 31, 2008 amounted to US\$90 million, or Php4,288 million, which is payable over five years in 10 equal semi-annual installments with final repayment due on March 27, 2013.

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

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

On November 21, 2008, PLDT signed a loan agreement with Land Bank of the Philippines amounting to Php2,400 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under

this loan was made on December 12, 2008 in the amount of Php500 million, which remained outstanding as at December 31, 2008. The loan is payable over five years in ten equal semi-annual installments with final repayment due on December 12, 2013. As at December 31, 2008, the undrawn balance of the loan was Php1,900 million.

On November 25, 2008, Smart signed a US\$22 million five-year term loan facility to finance the supply, installation, commissioning, and testing of Wireless Code Division Multiple Access/High Speed Packet Access project with Nordea Bank AB as Original Lender, Arranger and Facility Agent. On December 10, 2008, Nordea Bank AB assigned its rights and obligations to the Swedish Export Credit Corporation (AB Svensk Exportkredit) supported by EKN. The initial drawdown under this facility was made on December 15, 2008 in the amount of US\$8 million. The facility is payable in ten equal semi-annual installments with final repayment due on December 10, 2013. Interest is payable at a fixed rate of 3.79% per annum. As at December 31, 2008, the undrawn balance of this facility was US\$14 million.

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

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

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

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

On February 20, 2009, PLDT issued Php5,000 million Fixed Rate Notes under a Notes Facility Agreement dated February 18, 2009, comprising of Series A five-year notes amounting to Php2,400 million, Series B seven-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,500 million. The interest rates on the Series A notes were fixed at 7.4269%, Series B notes at 8.3692%, and Series C notes at 9.1038%. Proceeds from the facility will be used to finance capital expenditures of PLDT.

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

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

Debt Covenants

Our debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, calculated in conformity with PFRS, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments. Furthermore, certain of PLDT's debt instruments contain provisions wherein 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 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 increased our regular dividend payout ratio to 70% of our earnings per share starting 2007 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. On August 5, 2008, we declared a regular cash dividend of Php70 per share and on March 3, 2009, we also declared regular and special cash dividends of Php70 per share and Php60 per share, respectively, representing approximately 100% payout of our 2008 earnings per share on an adjusted basis (taking out asset impairment on non-current assets and gains/losses on foreign exchange revaluation and derivatives.)

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

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

Off-Balance Sheet Arrangement

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

Equity Financing

PLDT raised Php7 million and Php73 million from the exercise by certain officers and executives of stock options in 2008 and 2007, respectively. In addition, through our subscriber investment plan which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% cumulative convertible preferred stock as part of the upfront payments collected from subscribers, PLDT was able to raise Php1 million and Php3 million in 2008 and 2007 from this source, respectively.

As part of our goal to maximize returns to our shareholders, in 2008, we obtained board of directors' approval on a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. As at December 31, 2008, we acquired and paid a total of 1,972,290 shares of PLDT's common stock at a weighted average price of Php2,521 per share for a total consideration of Php4,973 million in accordance with the share buyback program. The effect of the acquisition of shares of PLDT's common stock pursuant to

the share buyback program was considered in the computation of our basic and diluted earnings per common share for the year ended December 31, 2008. Please refer to *Note 17 – Equity* to the accompanying consolidated financial statements for further details.

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

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 consolidated financial statements.

Commercial Commitments

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

Quantitative and Qualitative Disclosures about Market Risks

Our operations are exposed to various risks, including liquidity risk, foreign exchange risk, interest rate risk, credit risk and capital management 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 consolidated financial statements.

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

	Fair Values	
	December 31, 2008	September 30, 2008
	(in millions)	
Noncurrent Financial Assets		
Available-for-sale – financial investments	Php131	Php142
Investments in debt securities	629	618
Advances and refundable deposits – net of current portion	728	625
Total noncurrent financial assets	1,488	1,385
Current Financial Assets		
Cash and cash equivalents	33,684	22,550
Short-term investments	6,670	4,657
Investment in debt securities	1,656	1,503
Trade and other receivables	15,909	14,836
Derivative financial assets	56	68
Total current financial assets	57,975	43,614
Total Financial Assets	Php59,463	Php44,999

	Fair Values	
	December 31, 2008	September 30, 2008
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php57,069	Php52,820
Derivative financial liabilities	1,761	3,384
Customers' deposits	1,476	1,419
Deferred credits and other noncurrent liabilities	7,959	6,774
Total noncurrent financial liabilities	68,265	64,397
Current Financial Liabilities		
Accounts payable	16,294	13,843
Accrued expenses and other current liabilities	18,612	20,117
Derivative financial liabilities	87	826
Interest-bearing financial liabilities	15,080	15,354
Dividends payable	1,379	1,379
Total current financial liabilities	51,542	51,519
Total Financial Liabilities	Php119,717	Php115,916

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

	December 31, 2008	September 30, 2008
	(in millions)	
Profit and Loss		
Gain on derivative financial instruments	Php3,812	Php2,855
Interest income	1,668	1,314
Gain (loss) on cash flow hedges	(404)	95
Interest on loans and related items	(5,861)	(4,560)
Accretion on financial liabilities	(956)	(718)
Cumulative Translation Adjustments		
Net losses on cash flow hedges charged to cumulative translation adjustments	(662)	(1,109)
Net gains on cash flow hedges removed from cumulative translation adjustments taken to income	(697)	(697)
Net gain (loss) available-for-sale financial assets	(9)	1
	(Php3,109)	(Php2,819)

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. In 2008, the inflation rate has increased and we expect this trend to have an impact on our operations moving forward. The average inflation rate in the Philippines in 2008 was 9.3% compared with 2.8% in 2007.

PART II – OTHER INFORMATION

Acquisition of Debt and Equity of Philcom Corporation, or Philcom

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

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

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

PLDT, Mabuhay Satellite, ProtoStar Ltd., or ProtoStar, and ProtoStar III Ltd., or ProtoStar III, sign several cooperation agreements

On September 16, 2008, PLDT, its subsidiary Mabuhay Satellite, ProtoStar, a Bermuda-based company and its wholly-owned Bermuda subsidiary ProtoStar III, signed several agreements covering multiple areas of cooperation.

Key aspects of the agreements include: (a) an exchange of certain Mabuhay Satellite assets for an equity position in ProtoStar; (b) expanded use of Mabuhay's Subic Space Center for the operation and control of satellites; (c) an option for PLDT to make further investments in ProtoStar; and (d) an agreement for PLDT to lease C-band transponder capacity on the ProtoStar I satellite owned and operated by ProtoStar I Ltd., also a wholly-owned Bermuda subsidiary of ProtoStar.

Mabuhay Satellite and ProtoStar III are continuing to work on closing the transaction and transfer of assets from Mabuhay Satellite to ProtoStar III may be completed within the first quarter of 2009. In the meantime, ProtoStar has begun to expand the Subic Space Center for the operation and control of its satellites.

ProtoStar plans to launch several more satellites in the coming years, with a ProtoStar II satellite due to be launched in the spring of 2009. It aims to operate high-power geostationary satellites optimized for direct-to-home satellite television, broadband internet and GSM backhaul services, wherein the availability of significant satellite capacity which will further add to the robustness of our network.

Related Party Transactions

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

ANNEX – AGING OF ACCOUNTS RECEIVABLE


The following table shows the aging of our consolidated receivables as at December 31, 2008:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
	(In Millions)				
Corporate subscribers	Php9,188	Php1,432	Php1,494	Php745	Php5,517
Retails subscribers	8,993	2,558	1,167	308	4,960
Foreign administrations	5,916	1,959	1,683	860	1,414
Domestic carriers	877	128	89	98	562
Dealers, agents and others	3,271	2,711	48	9	503
Total	Php28,245	Php8,788	Php4,481	Php2,020	Php12,956
Less: Allowance for doubtful accounts ..	<u>12,336</u>				
Total Receivables - net	<u>Php15,909</u>				


SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the fourth 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
First Vice President and Controller
(Principal Accounting Officer)

Date: March 3, 2009