

SEC Number **PW-55**

File Number

**PHILIPPINE LONG DISTANCE
TELEPHONE COMPANY**

(Company's Full Name)

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

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

March 31, 2009

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

May 5, 2009

Securities & Exchange Commission
SEC Building, EDSA
Mandaluyong City

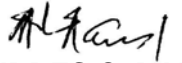
Attention: Director Justina Callangan
Corporations Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith three (3) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited financial statements of the Company for the three months ended March 31, 2009.

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

SEC FORM 17-Q
FORM TYPE

0 6 Every 2nd Tuesday
Month Day
Annual Meeting

C F D
Dept. Requiring this Doc.

N/A
Amended Articles
Number/Section

2,183,310
As at March 31, 2009
Total No. of Stockholders

Total Amount of Borrowings
N/A
Domestic

N/A
Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended March 31, 2009
2. SEC Identification Number PW-55
3. BIR Tax Identification No. 000-488-793
4. Philippine Long Distance Telephone Company
Exact name of registrant as specified in its charter
5. Republic of the Philippines
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: _____ (SEC Use Only)
7. Ramon Cojuangco Building, Makati Avenue, Makati City
Address of registrant's principal office 0721
Postal Code
8. (632) 816-8556
Registrant's telephone number, including area code
9. Not Applicable
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class Number of Shares of Common Stock Outstanding

Common Capital Stock, Php5 par value 186,804,357 shares as at March 31, 2009

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

Yes [X] No []

12. Check whether the registrant

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

Yes [X] No []

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

Yes [X] No []

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Our consolidated financial statements as at March 31, 2009 (unaudited) and December 31, 2008 (audited) and for the three months ended March 31, 2009 and 2008 (unaudited) and related notes (pages F-1 to F-103) are filed as part of this report on Form 17-Q.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and the related notes. Our unaudited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with Philippine Financial Reporting Standards, or PFRS, which has certain differences from International Financial Reporting Standards as issued by the International Accounting Standards Board. PFRS differ in certain significant respects from generally accepted accounting principles in the U.S.

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "pesos," "Philippine pesos" or "Php" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US\$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "¥" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php48.42 to US\$1.00, the volume weighted average exchange rate at March 31, 2009 quoted through the Philippine Dealing System.

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

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



Financial Highlights and Key Performance Indicators

	<u>March 31,</u>	<u>December 31,</u>	<u>Increase (Decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>Amount</u>	<u>%</u>
(in millions, except for earnings per common share, operational data and exchange rates)				
Consolidated Statements of Financial Position				
Total assets	Php270,965	Php252,558	Php18,407	7
Property, plant and equipment – net	159,193	160,326	(1,133)	(1)
Cash and cash equivalents and short-term investments	54,128	40,354	13,774	34
Total equity attributable to equity holders of PLDT	89,403	105,531	(16,128)	(15)
Notes payable and long-term debt	79,121	73,911	5,210	7
Net debt ⁽¹⁾ to equity ratio	0.28x	0.32x	–	–
	<u>Three Months Ended March 31,</u>		<u>Increase (Decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>Amount</u>	<u>%</u>
	(Unaudited)			
Consolidated Income Statements				
Revenues	Php36,814	Php35,385	Php1,429	4
Expenses	21,763	20,131	1,632	8
Other income (expenses)	(1,764)	913	(2,677)	(293)
Income before income tax	13,287	16,167	(2,880)	(18)
Net income attributable to equity holders of PLDT	9,580	10,446	(866)	(8)
Pre-tax income margin	36%	46%	–	–
Net income margin	27%	30%	–	–
Earnings per common share				
Basic	50.55	54.71	(4.28)	(8)
Diluted	50.55	54.71	(4.28)	(8)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	15,146	22,169	(7,023)	(32)
Net cash provided by (used in) investing activities	1,619	(12,919)	14,538	113
<i>Capital expenditures</i>	3,944	3,051	893	29
Net cash provided by (used in) financing activities	604	(159)	763	480
Operational Data				
Number of cellular subscribers	36,926,699	31,575,959	5,350,740	17
Number of fixed line subscribers	1,776,291	1,763,602	12,689	1
Number of broadband subscribers	1,084,288	661,053	423,235	64
<i>Fixed Line</i>	470,865	299,554	171,311	57
<i>Wireless</i>	613,423	361,499	251,924	70
Number of employees	29,780	29,432	348	1
<i>Fixed Line</i>	8,076	8,088	(12)	–
<i>Wireless</i>	5,486	5,395	91	2
<i>Information and Communications Technology</i>	16,218	15,949	269	2
Exchange Rates				
	<u>Php per US\$</u>			
March 31, 2009	Php48.42			
December 31, 2008	47.65			
March 31, 2008	41.76			
December 31, 2007	41.41			

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

Overview

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

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, Pilipino Telephone Corporation, or Piltel, and Connectivity Unlimited Resources Enterprises, or CURE, our cellular service providers; Smart Broadband, Inc., or SBI, and Airborne Access Corporation, or Airborne Access, our wireless broadband providers; Wolfpac Mobile, Inc., or Wolfpac, our wireless content operator; Mabuhay Satellite Corporation, or Mabuhay Satellite, and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operators;
- *Fixed Line* — fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Maratel, Inc., Piltel (on June 4, 2008, PLDT acquired the fixed line assets of Piltel), Bonifacio Communications Corporation, Philcom Corporation, or Philcom, and PLDT Global Corporation, or PLDT Global, all of which together account for approximately 4% of our consolidated fixed line subscribers; and
- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT; knowledge processing solutions provided by SPi Technologies, Inc. and its subsidiaries, or SPi Group; customer interaction services provided under the umbrella brand name *ePLDT Ventus*, through ePLDT Ventus, Inc., or Ventus, Parlance Systems, Inc., or Parlance, and Vocativ Systems, Inc., or Vocativ; internet access and online gaming services provided by Infocom Technologies, Inc., or Infocom, Digital Paradise, Inc., or Digital Paradise, netGames, Inc., or netGames, and Level Up!, Inc., or Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 10 – Investments in Associates and Joint Ventures* to the accompanying unaudited consolidated financial statements.

We registered consolidated revenues of Php36,814 million in the first quarter of 2009, an increase of Php1,429 million, or 4%, as compared with Php35,385 million in the same period in 2008 primarily due to an increase in our service revenues by Php1,346 million resulting largely from an increase in the service revenues of our wireless business, which was primarily due to an increase in the number of our cellular and broadband subscribers.

Consolidated expenses increased by Php1,632 million, or 8%, to Php21,763 million in the first quarter of 2009 from Php20,131 million in the same period in 2008, largely resulting from increases in compensation and employee benefits, depreciation and amortization, cost of sales, and repairs and maintenance partly offset by lower selling and promotions expenses, professional and other contracted services, and asset impairment.

Consolidated other expenses increased by Php2,677 million to Php1,764 million in the first quarter of 2009 as compared with consolidated other income of Php913 million in the same period in 2008. The increase was primarily due to: (i) a loss on derivatives of Php506 million in the first quarter of 2009 as compared with a gain on derivatives of Php1,777 million in the same period in 2008 on account of a loss on mark-to-market valuation on principal only currency swaps and a lower net gain on mark-to-market valuation on forward foreign exchange contracts; (ii) increase in foreign exchange

losses of Php304 million on account of a revaluation of net foreign currency-denominated liabilities owing to the depreciation of the Philippine peso from Php47.65 in December 2008 to Php48.42 in March 2009 as compared with Php41.41 in December 2007 to Php41.76 in March 2008; and (iii) increase in financing costs of Php195 million mainly due to higher interest on loans and related items on account of higher debt level and higher financing charges. These were partly offset by a higher interest income of Php83 million due to higher level of cash balances, short-term investments and investment in debt securities.

Net income attributable to equity holders of PLDT decreased by Php866 million, or 8%, to Php9,580 million in the first quarter of 2009 from Php10,446 million in the same period in 2008. The decrease is mainly attributable to increases in consolidated other expenses by Php2,677 million and consolidated expenses by Php1,632 million, which were partially offset by a decrease in the consolidated provision for income tax by Php2,105 million due to a reduction in the regular corporate income tax rate from 35% to 30% beginning in January 2009, availment of optional standard deduction in the computation of income tax by our wireless business units and the 4% increase in consolidated revenues by Php1,429 million. Likewise, our basic and diluted earnings per common share decreased to Php50.55 in the first quarter of 2009 from Php54.71 in the same period in 2008. In the first quarter of 2009, as a result of the share buyback program implemented in 2008, there were 186.8 million PLDT common shares outstanding as compared with 188.9 million in the same period in 2008.

Results of Operations

The table below shows the contribution by each of our business segments to our revenues, expenses, other income (expenses) and net income (loss) for the three months ended March 31, 2009 and 2008. The majority of our revenues are derived from our operations within the Philippines.

	Wireless		Fixed Line		ICT		Inter-segment Transactions	Total	
	(in millions)								
For the three months ended									
March 31, 2009 (Unaudited)									
Revenues	Php24,362		Php12,716		Php2,669		(Php2,933)	Php36,814	
Expenses	12,603		9,395		2,718		(2,953)	21,763	
Other income (expenses)	(214)		(1,524)		22		(48)	(1,764)	
Income (loss) before income tax	11,545		1,797		(27)		(28)	13,287	
Net income (loss)	8,572		1,304		(25)		(19)	9,832	
Net income (loss) attributable to equity holders of PLDT	8,315		1,302		(18)		(19)	9,580	
For the three months ended									
March 31, 2008 (Unaudited)									
Revenues	22,810		12,435		2,615		(2,475)	35,385	
Expenses	11,770		8,370		2,509		(2,518)	20,131	
Other income (expenses)	(274)		1,336		(88)		(61)	913	
Income before income tax	10,766		5,401		18		(18)	16,167	
Net income	6,790		3,803		32		(18)	10,607	
Net income attributable to equity holders of PLDT	6,624		3,802		38		(18)	10,446	
Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	Amount	%
Revenues	Php1,552	7	Php281	2	Php54	2	(Php458)	Php1,429	4
Expenses	833	7	1,025	12	209	8	(435)	1,632	8
Other income (expenses)	60	(22)	(2,860)	(214)	110	125	13	(2,677)	(293)
Income (loss) before income tax	779	7	(3,604)	(67)	(45)	(250)	(10)	(2,880)	(18)
Net income (loss)	1,782	26	(2,499)	(66)	(57)	(178)	(1)	(775)	(7)
Net income (loss) attributable to equity holders of PLDT	1,691	26	(2,500)	(66)	(56)	(147)	(1)	(866)	(8)

Wireless

Revenues

The following table summarizes our unaudited total revenues from our wireless business for the three months ended March 31, 2009 and 2008 by service segment:

	2009	%	2008	%	Increase	
					Amount	%
	(in millions)					
Wireless Services:						
Service Revenues:						
Cellular	Php22,151	91	Php21,147	93	Php1,004	5
Wireless broadband, satellite and others	1,753	7	1,319	6	434	33
	<u>23,904</u>	<u>98</u>	<u>22,466</u>	<u>99</u>	<u>1,438</u>	<u>6</u>
Non-Service Revenues:						
Sale of cellular handsets and cellular SIM-packs	458	2	344	1	114	33
Total Wireless Revenues	<u>Php24,362</u>	<u>100</u>	<u>Php22,810</u>	<u>100</u>	<u>Php1,552</u>	<u>7</u>

Service Revenues

Our wireless service revenues increased by Php1,438 million, or 6%, to Php23,904 million in the first quarter of 2009 as compared with Php22,466 million in the same period in 2008, mainly as a result of the growth in the cellular and wireless broadband subscriber base. In particular, revenues from short messaging service, or SMS, increased due to the larger cellular subscriber base, and lower dealer discounts and interconnection expense. Voice revenues also increased due to the growth in international inbound call volumes in the first quarter of 2009 as compared with the same period in 2008. However, because the growth in our subscriber base was mainly in the lower income segment of the Philippine wireless market, our cellular average monthly ARPUs for the first quarter of 2009 was lower as compared with the same period in 2008. Such increases were also complemented by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues from Php40.95 in the first quarter of 2008 to Php47.79 in the same period in 2009. As a percentage of our total wireless revenues, service revenues contributed 98% and 99% in the first quarter of 2009 and 2008, respectively.

Cellular Service

Our cellular service revenues in the first quarter of 2009 amounted to Php22,151 million, an increase of Php1,004 million, or 5%, from Php21,147 million in the same period in 2008. Cellular service revenues accounted for 93% of our wireless service revenues in the first quarter of 2009 as compared with 94% in the same period in 2008.



The following table shows the breakdown of our unaudited cellular service revenues and other key measures of our cellular business as at and for the three months ended March 31, 2009 and 2008:

	2009	2008 (in millions)	Increase	
			Amount	%
Cellular service revenues	Php22,151	Php21,147	Php1,004	5
<i>By service type</i>				
Prepaid	21,545	20,611	934	5
Postpaid	19,908	19,096	812	4
Postpaid	1,637	1,515	122	8
<i>By component</i>				
Voice	21,545	20,611	934	5
Data	9,459	8,889	570	6
Data	12,086	11,722	364	3
<i>Others⁽¹⁾</i>	606	536	70	13

⁽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.

	2009	2008	Increase (Decrease)	
			Amount	%
Cellular subscriber base	36,926,699	31,575,959	5,350,740	17
Prepaid	36,519,235	31,232,962	5,286,273	17
<i>Smart</i>	20,921,438	20,279,368	642,070	3
<i>Piltel</i>	15,565,400	10,953,594	4,611,806	42
<i>CURE (acquired on April 25, 2008)</i>	32,397	–	32,397	100
Postpaid	407,464	342,997	64,467	19
Systemwide traffic volumes (in millions)				
Calls (in minutes)	1,695	1,612	83	5
Domestic – outbound	982	949	33	3
International	713	663	50	8
<i>Inbound</i>	663	609	54	9
<i>Outbound</i>	50	54	(4)	(7)
SMS count	66,656	59,603	7,053	12
Text messages	66,256	59,188	7,068	12
Domestic	66,181	59,118	7,063	12
<i>Bucket-Priced</i>	61,131	53,224	7,907	15
<i>Standard</i>	5,050	5,894	(844)	(14)
International	75	70	5	7
Value-Added Services	395	407	(12)	(3)
Financial Services	5	8	(3)	(38)

Revenues attributable to our cellular prepaid service amounted to Php19,908 million in the first quarter of 2009, a 4% increase over the Php19,096 million earned in the same period in 2008. Prepaid service revenues accounted for 92% and 93% of voice and data revenues in the first quarter of 2009 and 2008, respectively. Revenues attributable to Smart's postpaid service amounted to Php1,637 million in the first quarter of 2009, an 8% increase over the Php1,515 million earned in the same period in 2008, and accounted for 8% and 7% of voice and data revenues in the first quarter of 2009 and 2008, respectively.

Voice Services

Cellular revenues from voice services, which include all voice traffic and voice value-added services, or VAS, such as voice mail and outbound international roaming, increased by Php570 million, or 6%, to Php9,459 million in the first quarter of 2009 from Php8,889 million in the same period in 2008 primarily due to the growth in inbound international call volumes complemented by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar on our dollar-linked revenues from Php40.95 in the first quarter of 2008 to Php47.79 in the same period in 2009. Cellular voice services accounted for 43% of cellular service revenues in the first quarter of 2009 as compared with 42% in the same period in 2008.

Domestic outbound calls totaled 982 million minutes in the first quarter of 2009, an increase of 33 million, or 3%, as compared with 949 million minutes in the same period in 2008. International inbound and outbound calls totaled 713 million minutes in the first quarter of 2009, an increase of 50 million, or 8%, as compared with 663 million minutes in the same period in 2008, mainly due to an increase in cellular subscriber base.

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as VAS, increased by Php364 million, or 3%, to Php12,086 million in the first quarter of 2009 from Php11,722 million in the same period in 2008. Cellular data services accounted for 55% of cellular service revenues in each of the first quarters of 2009 and 2008.

The following table shows the breakdown of our unaudited cellular data revenues for the three months ended March 31, 2009 and 2008:

	2009	2008	Increase (Decrease)	
			Amount	%
			(in millions)	
Text messaging				
Domestic	Php11,073	Php10,659	Php414	4
<i>Bucket-Priced</i>	6,896	6,346	550	9
<i>Standard</i>	4,177	4,313	(136)	(3)
International	396	465	(69)	(15)
	<u>11,469</u>	<u>11,124</u>	<u>345</u>	<u>3</u>
Value-added services				
Standard ⁽¹⁾	262	360	(98)	(27)
Rich Media ⁽²⁾	243	103	140	136
<i>Pasa Load</i>	105	120	(15)	(13)
	<u>610</u>	<u>583</u>	<u>27</u>	<u>5</u>
Financial services				
<i>Smart Money</i>	6	14	(8)	(57)
Mobile Banking	1	1	-	-
	<u>7</u>	<u>15</u>	<u>(8)</u>	<u>(53)</u>
Total	<u>Php12,086</u>	<u>Php11,722</u>	<u>Php364</u>	<u>3</u>

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

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

Text messaging-related services contributed revenues of Php11,469 million in the first quarter of 2009, an increase of Php345 million, or 3%, as compared with Php11,124 million in the same period in 2008, and accounted for 95% of the total cellular data revenues in each of the first quarters of 2009 and 2008. The increase in revenues from text messaging-related services resulted mainly from Smart's

various bucket-priced text promotional offerings which more than offset the decline in our standard texting services. Text messaging revenues from the various bucket plans totaled Php6,896 million in the first quarter of 2009, an increase of Php550 million, or 9%, as compared with Php6,346 million in the same period in 2008. On the other hand, standard text messaging revenues declined by Php136 million, or 3%, to Php4,177 million in the first quarter of 2009 from Php4,313 million in the same period in 2008.

Standard text messages totaled 5,050 million in the first quarter of 2009, a decrease of 844 million, or 14%, as compared with 5,894 million in the same period in 2008 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in the first quarter of 2009 totaled 61,131 million, an increase of 7,907 million, or 15%, as compared with 53,224 million in the same period in 2008.

VAS, which contributed revenues of Php610 million in the first quarter of 2009, increased by Php27 million, or 5%, from Php583 million in the same period in 2008 primarily due to higher usage of rich media services, partially offset by lower usage of standard services and *Pasa Load*, which is a service allowing prepaid subscribers to transfer small denominations of airtime credits to other prepaid subscribers, owing to the continued patronage of low-denomination top-ups.

Subscriber Base, ARPU and Churn Rates

In the first quarter of 2009, Smart, Piltel and CURE cellular subscribers totaled 36,926,699, an increase of 5,350,740, or 17%, over their combined cellular subscriber base of 31,575,959 in the same period in 2008. Our cellular prepaid subscriber base grew by 17% to 36,519,235 in the first quarter of 2009 from 31,232,962 in the same period in 2008, while our postpaid subscriber base increased by 19% to 407,464 in the first quarter of 2009 from 342,997 in the same period in 2008. Prepaid subscribers accounted for 99% of our total subscriber base in each of the first quarters of 2009 and 2008. Prepaid and postpaid subscribers reflected net activations of 1,692,767 and 9,328, respectively, in the first quarter of 2009.

Our unaudited net subscriber activations for the three months ended March 31, 2009 and 2008 were as follows:

	2009	2008	Increase	
			Amount	%
Prepaid	1,692,767	1,533,812	158,955	10
<i>Smart</i>	419,821	282,044	137,777	49
<i>Piltel</i>	1,256,907	1,251,768	5,139	–
<i>CURE</i> ⁽¹⁾	16,039	–	16,039	100
Postpaid	9,328	1,117	8,211	735
Total	1,702,095	1,534,929	167,166	11

(1) Acquired on April 25, 2008.

For Smart prepaid, the average monthly churn rate for the first quarter of 2009 and 2008 were 4.3% and 4.7%, respectively, while the average monthly churn rate for Piltel subscribers was 4.1% in each of the first quarters of 2009 and 2008.

The average monthly churn rate for Smart's postpaid subscribers was 2.2% for the first quarter of 2009 and 1.5% in the same period in 2008. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is disconnected. Within this 44-day period, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

The following table summarizes our unaudited cellular average monthly ARPUs for the three months ended March 31, 2009 and 2008:

	Gross ⁽¹⁾		Decrease		Net ⁽²⁾		Decrease	
	2009	2008	Amount	%	2009	2008	Amount	%
Prepaid								
Smart	Php272	Php292	(Php20)	(7)	Php216	Php230	(Php14)	(6)
Piltel	176	207	(31)	(15)	144	163	(19)	(12)
Prepaid – Blended ⁽³⁾	232	263	(31)	(12)	186	207	(21)	(10)
Postpaid – Smart	1,863	2,013	(150)	(7)	1,364	1,472	(108)	(7)
Prepaid and Postpaid Blended ⁽⁴⁾	250	283	(33)	(12)	199	221	(22)	(10)

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

(2) Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income net of interconnection expense, but net of discounts and content-provider costs, by the average number of subscribers in the month.

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

(4) The average monthly ARPU of prepaid and postpaid subscribers of Smart and prepaid subscribers of Piltel.

Prepaid service revenues consist mainly of charges for subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU in the first quarter of 2009 was Php232, a decrease of 12%, as compared with Php263 in the same period in 2008. The decrease was primarily due to a decline in the average outbound and inbound domestic voice and text messaging revenue per subscriber in the first quarter of 2009 as compared with the same period in 2008. On a net basis, prepaid blended average monthly ARPU in the first quarter of 2009 was Php186, a decrease of 10%, as compared with Php207 in the same period in 2008.

Gross average monthly ARPU for postpaid subscribers decreased by 7% to Php1,863 while net average monthly ARPU decreased to Php1,364 in the first quarter of 2009 as compared with Php2,013 and Php1,472 in the same period in 2008, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php250 in the first quarter of 2009, a decrease of 12%, as compared with Php283 in the same period in 2008. Net average monthly prepaid and postpaid blended ARPU decreased by 10% to Php199 in the first quarter of 2009 from Php221 in the same period in 2008.



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

	Prepaid				Postpaid	
	Smart		Piltel		Smart	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
2009 (Unaudited)						
First Quarter	Php272	Php216	Php176	Php144	Php1,863	Php1,364
2008 (Audited)						
First Quarter	292	230	207	163	2,013	1,472
Second Quarter	294	232	199	159	2,134	1,510
Third Quarter	285	223	178	148	2,078	1,505
Fourth Quarter	291	234	192	162	2,037	1,445

(1) Gross quarterly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.

(2) Net quarterly ARPU is calculated based on the average of the net monthly ARPUs for the quarter.

Wireless Broadband, Satellite and Other Services

Our revenues from wireless broadband, satellite and other services consist mainly of wireless broadband service revenues from SBI, rentals received for the lease of Mabuhay Satellite's transponders, charges for ACeS Philippines' satellite information and messaging services and service revenues generated by the mobile virtual network operations of PLDT Global's subsidiary. Gross revenues from these services in the first quarter of 2009 amounted to Php1,753 million, an increase of Php434 million, or 33%, from Php1,319 million in the same period in 2008 principally due to the growth in our wireless broadband business complemented by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar from Php40.95 in the first quarter of 2008 to Php47.79 in the same period in 2009 on our U.S. dollar and U.S. dollar-linked revenues partially offset by lower satellite transponder rental revenues owing to lower rental charges and a decrease in the number of transponders being leased out.

SBI offers a number of wireless broadband services and had 596,414 subscribers in the first quarter of 2009 as compared with 347,958 subscribers in the same period in 2008. Wireless broadband revenues contributed Php1,289 million to wireless service revenues in the first quarter of 2009, increasing by Php370 million, or 40%, as compared with Php919 million in the same period in 2008.

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

In 2007, we introduced *SmartBro Plug-It* which offers instant internet access, through the use of a wireless modem, in places where there is Smart network coverage. Subscribers 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. In March 2009, we introduced *SmartBro Share-It*, which allows users to share their broadband access with other computers in a home network via a WiFi router. *SmartBro Share-It* runs on a High Speed Packet Access, or HSPA, network ready for transfer capacities of up to 2 Mbps. The monthly service fee of Php999 includes 90 hours per month of high-speed internet usage. A one-time charge for the modem costs Php2,500.

We also offer *PLDT WeRoam*, a wireless broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies). This service had 17,009 subscribers in the first quarter of 2009 as compared with 13,541 subscribers in the same period in 2008 and contributed Php55 million to our data revenues in the first quarter of 2009, increasing by Php17 million, or 45%, as compared with Php38 million in the same period in 2008.

Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues increased by Php114 million, or 33%, to Php458 million in the first quarter of 2009 as compared with Php344 million in the same period in 2008 primarily due to higher average retail price per cellular SIM-pack and higher sales volume of cellular phonekits and broadband data modem.

Expenses

Expenses associated with our wireless business in the first quarter of 2009 amounted to Php12,603 million, an increase of Php833 million, or 7%, from Php11,770 million in the same period in 2008. A significant portion of this increase was attributable to compensation and employee benefits, rent, cost of sales and repairs and maintenance partially offset by lower expenses related to selling and promotions, asset impairment and taxes and licenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 52% in each of the first quarters of 2009 and 2008.

Cellular business expenses accounted for 87% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 13% of our wireless business expenses in the first quarter of 2009 as compared with 88% and 12%, respectively, in the same period in 2008.

The following table summarizes the breakdown of our unaudited total wireless-related expenses for the three months ended March 31, 2009 and 2008 and the percentage of each expense item to the total:

	2009		2008		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Wireless Services:						
Depreciation and amortization	Php3,230	26	Php3,154	27	Php76	2
Rent	2,637	21	2,295	20	342	15
Compensation and employee benefits ⁽¹⁾	1,635	13	1,242	11	393	32
Repairs and maintenance	1,187	9	1,056	9	131	12
Cost of sales	1,022	8	779	7	243	31
Selling and promotions	971	8	1,108	9	(137)	(12)
Professional and other contracted services	601	5	594	5	7	1
Taxes and licenses	428	3	502	4	(74)	(15)
Communication, training and travel	217	2	239	2	(22)	(9)
Asset impairment	206	2	343	3	(137)	(40)
Insurance and security services	188	1	172	1	16	9
Amortization of intangible assets	33	—	33	—	—	—
Other expenses	248	2	253	2	(5)	(2)
Total	Php12,603	100	Php11,770	100	Php833	7

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

Depreciation and amortization charges increased by Php76 million, or 2%, to Php3,230 million in the first quarter of 2009 principally due to increased depreciation on the growing asset base of 3G and broadband networks, and broadband customer-deployed equipment, partly offset by a decrease in the depreciable asset base of our 2G network.

Rent expenses increased by Php342 million, or 15%, to Php2,637 million on account of an increase in international and domestic circuits leased by Smart from PLDT, as well as higher site and satellite rental expenses. In the first quarter of 2009, we had 5,300 GSM cell sites and 8,678 base stations, as compared with 5,116 GSM cell sites and 7,893 base stations in the same period in 2008.

Compensation and employee benefits expenses increased by Php393 million, or 32%, to Php1,635 million primarily due to a 2% growth in Smart's headcount, merit-based increases and employee upgrades and promotions coupled with an increase in provisions for LTIP, MRP and pension costs. Smart and subsidiaries' employee headcount increased by 90 to 5,430 in the first quarter of 2009 as compared with 5,340 in the same period in 2008. For further discussion of our LTIP, please see *Note 25 – Share-based Payments and Employee Benefits* to the accompanying unaudited consolidated financial statements.

Repairs and maintenance expenses increased by Php131 million, or 12%, to Php1,187 million mainly due to an increase in network maintenance costs and electricity consumption partly offset by lower software maintenance expenses and fuel costs for power generation.

Cost of sales increased by Php243 million, or 31%, to Php1,022 million primarily due to higher sales volume of cellular phonekits and broadband data modems in the first quarter of 2009, partly offset by lower average cost of SIM-packs sold.

Selling and promotion expenses decreased by Php137 million, or 12%, to Php971 million primarily due to decreases in advertising, promotional campaigns and commission expenses.

Professional and other contracted services increased by Php7 million, or 1%, to Php601 million primarily due to higher contracted service and consultancy fees.

Taxes and licenses decreased by Php74 million, or 15%, to Php428 million primarily due to lower business-related taxes.

Communication, training and travel expenses decreased by Php22 million, or 9%, to Php217 million primarily due to lower training, travel and courier expenses incurred in the first quarter of 2009.

Asset impairment decreased by Php137 million, or 40%, to Php206 million mainly due to the impairment on investment in ACeS International Limited through ACeS Philippines in 2008. Such decrease in impairment was partially offset by higher provision for inventory obsolescence and doubtful accounts.

Insurance and security services increased by Php16 million, or 9%, to Php188 million primarily due to higher site security expense and higher insurance and bond premiums.

Other expenses decreased by Php5 million, or 2%, to Php248 million primarily due to lower various business and operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our unaudited total wireless-related other expenses for the three months ended March 31, 2009 and 2008:

	2009	2008	Change	
			Amount	%
			(in millions)	
Other Expenses:				
Interest income	Php371	Php310	Php61	20
Losses on derivatives – net	(2)	(124)	122	(98)
Foreign exchange losses – net	(206)	(19)	(187)	984
Financing costs	(592)	(497)	(95)	19
Others	215	56	159	284
Total	(Php214)	(Php274)	Php60	(22)

Our wireless business segment generated other expenses of Php214 million in the first quarter of 2009, a change of Php60 million, or 22%, from Php274 million in the same period in 2008 primarily due to the combined effects of the following: (1) increase in other income by Php159 million mainly due to a gain on sale of fixed assets in 2009; (2) a lower net loss on derivatives by Php122 million relating to the loss in the mark-to-market valuation of forward foreign exchange contracts; and (3) increase in net foreign exchange losses of Php187 million on account of a loss on revaluation of net foreign currency-denominated liabilities owing to the depreciation of the Philippine peso from Php47.65 as at December 31, 2008 to Php48.42 as at March 31, 2009.

Provision for Income Tax

Provision for income tax decreased by Php1,003 million, or 25%, to Php2,973 million in the first quarter of 2009 from Php3,976 million in the same period in 2008. In the first quarter of 2009, the effective tax rate for our wireless business was 26% as compared with 37% in the same period in 2008 mainly due to availment of optional standard deduction in the computation of corporate income tax and reduction in the regular corporate income tax rate from 35% to 30% beginning in January 2009.

Net Income

Our wireless business segment recorded a net income of Php8,572 million in the first quarter of 2009, an increase of Php1,782 million, or 26%, from Php6,790 million recorded in the same period in 2008 on account of a Php1,438 million increase in wireless service revenues and lower provision for income tax by Php1,003 million, partially offset by an increase in wireless-related expenses of Php833 million.

Fixed Line

Revenues

Revenues generated from our fixed line business in the first quarter of 2009 totaled Php12,716 million, an increase of Php281 million, or 2%, from Php12,435 million in the same period in 2008.



The following table summarizes the unaudited total revenues from our fixed line business for the three months ended March 31, 2009 and 2008 by service segment:

	2009	%	2008	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Fixed Line Services:						
Service Revenues:						
Local exchange	Php3,857	30	Php4,054	32	(Php197)	(5)
International long distance	1,595	13	1,835	15	(240)	(13)
National long distance	1,687	13	1,695	14	(8)	–
Data and other network	5,153	41	4,392	35	761	17
Miscellaneous	361	3	360	3	1	–
	12,653	100	12,336	99	317	3
Non-Service Revenues:						
Sale of computers	63	–	99	1	(36)	(36)
Total Fixed Line Revenues	Php12,716	100	Php12,435	100	Php281	2

Service Revenues

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php317 million, or 3%, to Php12,653 million in the first quarter of 2009 from Php12,336 million in the same period in 2008 primarily due to an increase in revenues from our data and other network services as a result of higher revenues contributed by our DSL and Diginet services, and miscellaneous services, partially offset by the decrease in revenues from our international long distance, local exchange and national long distance services.

Local Exchange Service

The following table summarizes the key measures of our unaudited local exchange service business as at and for the three months ended March 31, 2009 and 2008:

	2009	2008	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php3,857	Php4,054	(Php197)	(5)
Number of fixed line subscribers	1,776,291	1,763,602	12,689	1
Postpaid	1,536,644	1,521,159	15,485	1
Prepaid	239,647	242,443	(2,796)	(1)
Number of fixed line employees	8,076	8,088	(12)	–
Number of fixed line subscribers per employee	220	218	2	1

Revenues from our local exchange service decreased by Php197 million, or 5%, to Php3,857 million in the first quarter of 2009 from Php4,054 million in the same period in 2008 primarily owing to a decrease in average revenue per user on account of lower fixed charges due to bundling of voice and data services, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLDT Landline Plus*, increase in demand for bundled voice and data services and higher service connection charges. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 30% in the first quarter of 2009 as compared with 33% in the same period in 2008.

In March 2007, PLDT launched *PLDT Landline Plus*, a postpaid fixed wireless service where subscribers to the service benefit from a text-capable home phone which can be brought around the area where it was applied for. The monthly service fee is at Php600 with 600 local minutes free and

Php1,000 with 1,000 local minutes free for residential and business subscribers, respectively. In March 2008, we introduced the prepaid counterpart of *PLDT Landline Plus*. As at March 31, 2009, there were a total of 134,294 active *PLDT Landline Plus* subscribers, of which 57,420 and 76,874 were postpaid and prepaid subscribers, respectively.

International Long Distance Service

The following table shows our unaudited fixed line international long distance service revenues and call volumes for the three months ended March 31, 2009 and 2008:

	2009	2008	Decrease	
			Amount	%
Total international long distance service revenues (in millions)	Php1,595	Php1,835	(Php240)	(13)
Inbound	1,307	1,475	(168)	(11)
Outbound	288	360	(72)	(20)
International call volumes (in million minutes, except call ratio)	466	506	(40)	(8)
Inbound	409	443	(34)	(8)
Outbound	57	63	(6)	(10)
Inbound-outbound call ratio	7.2:1	7.0:1	-	-

Our total international long distance service revenues decreased by Php240 million, or 13%, to Php1,595 million in the first quarter of 2009 from Php1,835 million in the same period in 2008 primarily due to a decrease in inbound and outbound call volumes due to cellular substitution and the availability of alternative economical modes of communications, such as email, text messaging and/or VoIP calls with lower international calling rates, among others, partially offset by the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar in the first quarter of 2009. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 13% in the first quarter of 2009 from 15% in the same period in 2008.

Our revenues from inbound international long distance service decreased by Php168 million, or 11%, to Php1,307 million in the first quarter of 2009 from Php1,475 million in the same period in 2008 due to a decline in inbound traffic volume by 34 million minutes to 409 million minutes in the first quarter of 2009 with more traffic terminating to cellular operators where the net revenue retained by us is lower. The decreasing effect was partially offset by the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar which increased our inbound international long distance revenues, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php72 million, or 20%, to Php288 million in the first quarter of 2009 from Php360 million in the same period in 2008 primarily due to the decline in outbound international call volumes partially offset by the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php47.79 in the first quarter of 2009 from Php40.95 in the same period in 2008, resulting in an increase in the average billing rates to Php47.63 in the first quarter of 2009 from Php41.12 in the same period in 2008.

National Long Distance Service

The following table shows our unaudited national long distance service revenues and call volumes for the three months ended March 31, 2009 and 2008:

	2009	2008	Decrease	
			Amount	%
Total national long distance service revenues (in millions)	Php1,687	Php1,695	(Php8)	–
National long distance call volumes (in million minutes)	517	520	(3)	(1)

Our national long distance service revenues decreased by Php8 million to Php1,687 million in the first quarter of 2009 from Php1,695 million in the same period in 2008 primarily due to a decrease in call volumes, partially offset by an increase in average revenue per minute for our national long distance services due to ceasing certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues decreased to 13% in the first quarter of 2009 from 14% in the same period in 2008.

Data and Other Network Services

The following table shows information of our unaudited data and other network service revenues for the three months ended March 31, 2009 and 2008:

	2009	2008	Increase (Decrease)	
			Amount	%
Data and other network service revenues (in millions)	Php5,153	Php4,392	Php761	17
Number of <i>DSL</i> broadband subscribers	470,865	299,554	171,311	57
Number of <i>PLDT Vibe</i> narrowband subscribers	83,420	200,862	(117,442)	(58)

In the first quarter of 2009, our data and other network services posted revenues of Php5,153 million, an increase of Php761 million, or 17%, as compared with Php4,392 million in the same period in 2008 primarily due to increases in leased lines, IP-based and packet-based data services, particularly global data connectivity and PLDT DSL, partially offset by a decrease in *PLDT Vibe* service subscribers. The percentage contribution of this service segment to our fixed line service revenues increased to 41% in the first quarter of 2009 from 35% in the same period in 2008.

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

DSL contributed revenues of Php1,599 million in the first quarter of 2009, an increase of Php372 million, or 30%, as compared with Php1,227 million in the same period in 2008 primarily due to an increase in the number of subscribers, which was partially offset by lower ARPU as a result of launching of lower-priced plans as part of promotions. DSL subscribers increased by 57% to 470,865 subscribers in the first quarter of 2009 from 299,554 subscribers in the same period in 2008.

PLDT Vibe revenues decreased by Php25 million, or 56%, to Php20 million in the first quarter of 2009 from Php45 million in the same period in 2008 primarily due to lower number of plan subscribers as well as the declining usage of our *PLDT Vibe* prepaid service. *PLDT Vibe* subscribers decreased by 58% to 83,420 subscribers in the first quarter of 2009 from 200,862 subscribers in the same period in 2008. The declining number of *PLDT Vibe* plans and regular monthly users for *Vibe* prepaid may be attributed to the migration from *PLDT Vibe* dial-up to DSL which is now priced more competitively.

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

The steady demand for dedicated international connectivity or private networking from the corporate market, offshore and outsourcing industries, and semiconductor market to use PLDT's extensive international alliances and domestic data offerings – Fibernet, Arcstar, other Global Service Providers such as BT-Infonet, Orange Business and Verizon; ISDN has been increasingly popular with corporate customers, especially the Primary Rate Interface type, I-Gate. International data services increased by Php397 million, or 44%, to Php1,296 million in the first quarter of 2009 from Php899 million in the same period in 2008 primarily due to higher I-Gate revenues by Php270 million, or 167%, to Php432 million in the first quarter of 2009 from Php162 million in the same period in 2008 as a result of Smart's higher usage and monthly recurring charges.

Domestic data services contributed Php3,857 million in the first quarter of 2009, an increase of Php364 million, or 10%, as compared with Php3,493 million in the same period in 2008. Growth was driven by the continued increase in DSL subscribers, and IP-VPN and Metro Ethernet, our high-speed wide area networking services, as demand from the offshoring and outsourcing segment continues to increase.

Dignet, our domestic private leased line service, has been providing Smart's increasing fiber optic and leased line data requirements. Dignet revenues decreased by Php89 million, or 5%, to Php1,836 million in the first quarter of 2009 from Php1,925 million in the same period in 2008 mainly due to a decrease in Smart's DFON rental to Php1,431 million in the first quarter of 2009 from Php1,458 million in the same period in 2008.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. In the first quarter of 2009, these revenues increased by Php1 million to Php361 million from Php360 million in the same period in 2008 mainly due to an increase in facilities management fees and rental income owing to higher co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of the three months ended March 31, 2009 and 2008.

Non-service Revenues

Non-service revenues decreased by Php36 million, or 36%, to Php63 million in the first quarter of 2009 from Php99 million in the same period in 2008 primarily due to lower computer sales and a decrease in the cost of fixed wireless service handsets.

Expenses

Expenses related to our fixed line business totaled Php9,395 million in the first quarter of 2009, an increase of Php1,025 million, or 12%, as compared with Php8,370 million in the same period in 2008. The increase was primarily due to higher compensation and employee benefits, and depreciation and amortization, which were partly offset by decreases in cost of sales, taxes and licenses, and selling and promotions expense.



The following table shows the breakdown of our unaudited total fixed line-related expenses for the three months ended March 31, 2009 and 2008 and the percentage of each expense item to the total:

	2009		2008		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Fixed Line Services:						
Depreciation and amortization	Php3,258	34	Php2,993	36	Php265	9
Compensation and employee benefits ⁽¹⁾	2,625	28	1,916	23	709	37
Repairs and maintenance	1,034	11	997	12	37	4
Rent	599	6	515	6	84	16
Professional and other contracted services	453	5	444	5	9	2
Selling and promotions	362	4	373	4	(11)	(3)
Taxes and licenses	293	3	306	4	(13)	(4)
Asset impairment	253	3	244	3	9	4
Communication, training and travel	170	2	175	2	(5)	(3)
Insurance and security services	162	2	172	2	(10)	(6)
Cost of sales	66	1	110	1	(44)	(40)
Other expenses	120	1	125	2	(5)	(4)
Total	Php9,395	100	Php8,370	100	Php1,025	12

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

Depreciation and amortization charges increased by Php265 million, or 9%, to Php3,258 million due to a higher depreciable asset base in the first quarter of 2009 as compared with the same period in 2008.

Compensation and employee benefits expenses increased by Php709 million, or 37%, to Php2,625 million primarily due to an increase in salaries and employee benefits as well as an increase in provisions for LTIP, pension and MRP costs. For further discussion on our LTIP and pension benefits, please see Note 25 – *Share-based Payments and Employee Benefits* to the accompanying unaudited consolidated financial statements.

Repairs and maintenance expenses increased by Php37 million, or 4%, to Php1,034 million primarily due to higher maintenance costs of IT hardware and foreign cable and wire facilities as more operating and maintenance-related restorations were incurred in the first quarter of 2009 as compared with the same period in 2008.

Rent expenses increased by Php84 million, or 16%, to Php599 million due to the increase in pole rental charges and international leased circuit charges, partially offset by a decrease in site rental charges.

Professional and other contracted services increased by Php9 million, or 2%, to Php453 million primarily due to higher contracted fees for call center outsourcing project services.

Selling and promotion expenses decreased by Php11 million, or 3%, to Php362 million primarily due to lower spending on marketing and promotion expenses as a result of lesser major advertising campaigns launched in the first quarter of 2009 as well as a decrease in commission expenses.

Taxes and licenses decreased by Php13 million, or 4%, to Php293 million as a result of lower business-related taxes.

Asset impairment increased by Php9 million, or 4%, to Php253 million mainly due to higher provision for uncollectible receivables.

Communication, training and travel expenses decreased by Php5 million, or 3%, to Php170 million due to the decrease in subscriber-related mailing and courier charges and lower fuel consumption charges partially offset by higher foreign and local training and travel expenses.

Insurance and security services decreased by Php10 million, or 6%, to Php162 million primarily due to lower insurance and bond premiums.

Cost of sales decreased by Php44 million, or 40%, to Php66 million due to lower computer sales and a decrease in the cost of fixed wireless service handsets.

Other expenses decreased by Php5 million, or 4%, to Php120 million due to lower business and operational-related expenses.

Other Income (Expenses)

The following table summarizes the breakdown of our unaudited total fixed line-related other income (expenses) for the three months ended March 31, 2009 and 2008:

	2009	2008	Change	
			Amount	%
	(in millions)			
Other Income (Expenses)				
Interest income	Php154	Php135	Php19	14
Foreign exchange losses – net	(423)	(258)	(165)	64
Gains (losses) on derivatives – net	(504)	1,951	(2,455)	(126)
Financing costs	(954)	(842)	(112)	13
Others	203	350	(147)	(42)
	<u>(Php1,524)</u>	<u>Php1,336</u>	<u>(Php2,860)</u>	<u>(214)</u>

Our fixed line business segment generated other expenses of Php1,524 million in the first quarter of 2009, a decrease of Php2,860 million, or 214%, as compared with other income of Php1,336 million in the same period in 2008. The change was due to: (1) a loss on derivatives of Php504 million relating to the loss in the mark-to-market valuation of various financial instruments in the first quarter of 2009 compared to a gain on derivatives of Php1,951 million in the same period in 2008 pertain to the impact of the de-designation of foreign currency swaps and option contracts in the first quarter of 2008; (2) a higher net foreign exchange loss of Php165 million on account of a loss on revaluation of net foreign currency-denominated liabilities owing to the depreciation of the Philippine peso in the first quarter of 2009; and (3) an increase in financing costs due to a higher debt level of PLDT.

Provision for Income Tax

Provision for income tax amounted to Php493 million in the first quarter of 2009 as compared with Php1,598 million in the same period in 2008 primarily due to lower taxable income and the reduction in the regular corporate income tax rate from 35% to 30% beginning in January 2009.

Net Income

In the first quarter of 2009, our fixed line business segment contributed a net income of Php1,304 million, a decrease of Php2,499 million, or 66%, as compared with Php3,803 million in the same period in 2008 mainly as a result of an increase in fixed line-related expenses by Php1,025 million and other expenses by Php2,860 million partially offset by an increase in service revenues by Php317 million and a lower provision for income tax by Php1,105 million.

Information and Communications Technology

Revenues

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

In the first quarter of 2009, our ICT business generated revenues of Php2,669 million, an increase of Php54 million, or 2%, as compared with Php2,615 million in the same period in 2008. This increase was primarily due to the continued growth of our data center and customer interaction solutions, as well as the steady revenue contribution of our internet and online gaming business partially offset by a decrease in the revenue contribution of our knowledge processing solutions business.

The following table summarizes the unaudited total revenues from our ICT business for the three months ended March 31, 2009 and 2008 by service segment:

	<u>2009</u>	<u>%</u>	<u>2008</u> (in millions)		<u>Increase (Decrease)</u>	
					<u>Amount</u>	<u>%</u>
Service Revenues:						
Knowledge processing solutions	Php1,232	46	Php1,323	51	(Php91)	(7)
Customer interaction solutions	913	34	867	33	46	5
Internet and online gaming	255	10	242	9	13	5
Vitro™ data center	211	8	143	5	68	48
	<u>2,611</u>	<u>98</u>	<u>2,575</u>	<u>98</u>	<u>36</u>	<u>1</u>
Non-Service Revenues:						
Point-product sales	58	2	40	2	18	45
Total ICT Revenues	<u>Php2,669</u>	<u>100</u>	<u>Php2,615</u>	<u>100</u>	<u>Php54</u>	<u>2</u>

Service Revenues

Service revenues generated by our ICT business segment amounted to Php2,611 million in the first quarter of 2009, an increase of Php36 million, or 1%, as compared with Php2,575 million in the same period in 2008 primarily as a result of the continued growth of our knowledge processing solutions business and our customer interaction solutions business complemented by an increase in co-location revenues and disaster recovery revenues from our data center business. As a percentage of our total ICT revenues, service revenues remained flat at 98% in the first quarter of 2009 and 2008.

Knowledge Processing Solutions

We provide our knowledge processing solutions primarily through the SPi Group. Knowledge processing solutions contributed revenues of Php1,232 million in the first quarter of 2009, a decrease of Php91 million, or 7%, as compared with Php1,323 million in the same period in 2008 primarily due to lower revenues contributed by SPi's litigation and healthcare services. Knowledge processing solutions accounted for 47% and 51% of total service revenues of our ICT business in the three months ended 2009 and 2008, respectively.

Customer Interaction Solutions

We provide our customer interaction solutions primarily through *ePLDT Ventus*. Revenues relating to our customer interaction solutions business increased by Php46 million, or 5%, to Php913 million in the first quarter of 2009 from Php867 million in the same period in 2008 primarily due to the increase in domestic business and the effect of the depreciation of the Philippine peso against the U.S. dollar on our dollar-denominated revenues. In total, we own and operate approximately 6,530 seats with 5,440 customer service representatives, or CSRs, in the first quarter of 2009 as compared with approximately 6,490 seats with 5,050 CSRs in the same period in 2008. In the three months ended March 31, 2009 and 2008, *ePLDT Ventus* have six and seven customer interaction solution sites, respectively. Customer interaction solution revenues accounted for 35% and 34% of total service revenues of our ICT business in the three months ended March 31, 2009 and 2008, respectively.

Internet and Online Gaming

Revenues from our internet and online gaming businesses increased by Php13 million, or 5%, to Php255 million in the first quarter of 2009 from Php242 million in the same period in 2008 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 10% and 9% of total service revenues of our ICT business in the three months ended March 31, 2009 and 2008, respectively.

Data Center

ePLDT operates an internet data center under the brand name *Vitro*TM which provides co-location or rental services, server hosting, hardware and software maintenance services, website development and maintenance services, webcasting and webhosting, shared applications, data disaster recovery and business continuity services, intrusion detection, and security services such as firewalls and managed firewalls. In the first quarter of 2009, our data center contributed revenues of Php211 million, an increase of Php68 million, or 48%, from Php143 million in the same period in 2008 primarily due to an increase in co-location or rental revenues and server hosting. Our data center revenues accounted for 8% and 6% of service revenues of our ICT business in the three months ended March 31, 2009 and 2008, respectively.

Non-Service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In the first quarter of 2009, non-service revenues generated by our ICT business increased by Php18 million, or 45%, to Php58 million from Php40 million in the same period in 2008 primarily due to higher revenues from sales of hardware and software licenses.

Expenses

Expenses associated with our ICT business totaled Php2,718 million in the first quarter of 2009, an increase of Php209 million, or 8%, as compared with Php2,509 million in the same period in 2008 primarily due to increases in compensation and employee benefits, cost of sales and repairs and maintenance, partially offset by lower professional and other contracted services, selling and promotions expenses and depreciation and amortization. As a percentage of our ICT total revenues, expenses related to our ICT business were 102% and 96% in the three months ended 2009 and 2008, respectively.

The following table shows the breakdown of our unaudited total ICT-related expenses for the three months ended March 31, 2009 and 2008 and the percentage of each expense item to the total:

	2009		2008		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
ICT Services:						
Compensation and employee benefits ⁽¹⁾	Php1,715	63	Php1,383	55	Php332	24
Depreciation and amortization	192	7	216	9	(24)	(11)
Rent	158	6	162	6	(4)	(2)
Repairs and maintenance	153	6	133	5	20	15
Professional and other contracted services	122	5	217	9	(95)	(44)
Communication, training and travel	117	4	128	5	(11)	(9)
Cost of sales	94	3	65	3	29	45
Amortization of intangible assets	60	2	61	2	(1)	(2)
Selling and promotions	27	1	53	2	(26)	(49)
Taxes and licenses	24	1	33	1	(9)	(27)
Insurance and security services	16	1	14	1	2	14
Asset impairment	1	–	(3)	–	4	133
Other expenses	39	1	47	2	(8)	(17)
Total	Php2,718	100	Php2,509	100	Php209	8

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

Compensation and employee benefits increased by Php332 million, or 24%, to Php1,715 million mainly due to higher accrued bonuses and employees' basic pay increase as a result of salary rate adjustments, as well as an increase in provisions for MRP and LTIP costs and the increase in ePLDT and subsidiaries' employee headcount by 269, or 2%, to 16,218 in the first quarter of 2009 as compared with 15,949 in the same period in 2008.

Depreciation and amortization charges decreased by Php24 million, or 11%, to Php192 million primarily due to a decrease in the depreciable asset base of our knowledge processing solutions business due to lower capital expenditures in the first quarter of 2009 as compared with the same period in 2008.

Rent expenses decreased by Php4 million, or 2%, to Php158 million primarily due to lower leased circuit rentals partially offset by higher office space rentals incurred by our customer interaction solutions business.

Repairs and maintenance expenses increased by Php20 million, or 15%, to Php153 million primarily due to higher electricity charges, IT software and hardware repairs and maintenance costs as a result of data center expansion.

Professional and other contracted services decreased by Php95 million, or 44%, to Php122 million primarily due to lower consultancy fees and subcontracted services incurred by the SPi Group related to its knowledge processing solutions business.

Communication, training and travel expenses decreased by Php11 million, or 9%, to Php117 million primarily due to lower local and foreign training and travel expenses incurred by our customer interaction solution and knowledge processing solution businesses.

Cost of sales increased by Php29 million, or 45%, to Php94 million primarily due to higher sales of software licenses and hardware products.

Amortization of intangible assets decreased by Php1 million, or 2%, to Php60 million due to lower amortization of intangibles recognized in relation to the acquisition of Level Up!. Please see *Note 13 – Goodwill and Intangible Assets* to the accompanying unaudited consolidated financial statements for further discussion.

Selling and promotion expenses decreased by Php26 million, or 49%, to Php27 million mainly due to the SPi Group’s lower commission, advertising and marketing expenses.

Taxes and licenses decreased by Php9 million, or 27%, to Php24 million primarily due to lower business-related taxes.

Insurance and security services increased by Php2 million, or 14%, to Php16 million primarily due to higher insurance and bond premiums.

Asset impairment increased by Php4 million, or 133%, to Php1 million primarily due to ePLDT’s reversal of impairment on other intangibles on its investment in Level Up! in 2008. Please see *Note 13 – Goodwill and Intangible Assets* to the accompanying unaudited consolidated financial statements for a detailed discussion.

Other expenses decreased by Php8 million, or 17%, to Php39 million mainly due to lower business-related costs.

Other Income (Expenses)

The following table summarizes the breakdown of our unaudited total ICT-related other income (expenses) for the three months ended March 31, 2009 and 2008:

	2009	2008	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Foreign exchange gains (losses) – net	Php36	(Php11)	Php47	427
Interest income	6	5	1	20
Losses on derivative transactions – net	–	(31)	31	(100)
Financing costs	(36)	(50)	14	(28)
Others	16	(1)	17	1,700
Total	Php22	(Php88)	Php110	125

Our ICT business segment generated other income of Php22 million in the first quarter of 2009, as compared with other expenses of Php88 million in the same period in 2008 primarily due to net foreign exchange gains as a result of the revaluation of net foreign currency-denominated assets on account of the depreciation of the Philippine peso in the first quarter of 2009 and a lower loss in the mark-to-market valuation recognized by our customer interaction solutions and knowledge processing solutions businesses on forward foreign exchange contracts.

Benefit from Income Tax

Benefit from income tax decreased by Php12 million, or 86%, to Php2 million primarily due to the corresponding deferred tax effect of the amortization of intangible assets.

Net Income (Loss)

In the first quarter of 2009, our ICT business segment registered a net loss of Php25 million as compared with a net income of Php32 million in the same period in 2008 mainly as a result of an 8% increase in ICT-related expenses which more than offset the 2% increase in total revenues generated by our ICT business in the first quarter of 2009, and lower benefit from income tax in the first quarter of 2009 as compared with the same period in 2008.

Liquidity and Capital Resources

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

	Three Months Ended March 31,	
	2009	2008
(in millions)		
Cash Flows		
Net cash provided by operating activities	Php15,146	Php22,169
Net cash provided by (used in) investing activities	1,619	(12,919)
<i>Capital expenditures</i>	<i>3,944</i>	<i>3,051</i>
Net cash provided by (used in) financing activities	604	(159)
Net increase in cash and cash equivalents	17,499	9,062
	March 31,	December 31,
	2009	2008
(in millions)		
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php63,298	Php58,899
Obligations under finance lease	9	11
	<u>63,307</u>	<u>58,910</u>
Current portion of interest-bearing financial liabilities:		
Notes payable	561	553
Long-term debt maturing within one year	15,262	14,459
Obligations under finance lease maturing within one year	55	59
Preferred stock subject to mandatory redemption	9	9
	<u>15,887</u>	<u>15,080</u>
Total interest-bearing financial liabilities	79,194	73,990
Total equity attributable to equity holders of PLDT	<u>89,403</u>	<u>105,531</u>
	<u>Php168,597</u>	<u>Php179,521</u>
Other Financial Data		
Total assets	Php270,965	Php252,558
Property, plant and equipment – net	159,193	160,326
Cash and cash equivalents	51,183	33,684
Short-term investments	2,945	6,670

As at March 31, 2009, our consolidated cash and cash equivalents and short-term investments totaled Php54,128 million. Principal sources of consolidated cash and cash equivalents in the first quarter of 2009 were cash flows from operating activities amounting to Php15,146 million and drawings mainly from PLDT's debt facilities aggregating Php6,745 million and net proceeds from maturity of short-term investments of Php3,774 million. These funds were used principally for capital outlays of Php3,944 million, total debt principal payments of Php2,988 million, share buyback of Php1,671 million, interest payments of Php1,122 million and dividend payments of Php491 million.

Operating Activities

Our consolidated net cash flows from operating activities in the first quarter of 2009 decreased by Php7,023 million, or 32%, to Php15,146 million from Php22,169 million in the same period in 2008 primarily due to higher level of settlement of various current liabilities partially offset by higher account billings.

A growing portion of our consolidated cash flow from operating activities is generated by our wireless service business, which accounted for 61% and 60% of our total service revenues in the three months ended March 31, 2009 and 2008, respectively. Revenues from our fixed line and information and communications technology services accounted for 32% and 7%, respectively, of our total service revenues in the first quarter of 2009 as compared with 33% and 7%, respectively, in the same period in 2008.

Cash flows from operating activities of our wireless business amounted to Php16,239 million in the first quarter of 2009, an increase of Php986 million, or 6%, as compared with Php15,253 million in the same period in 2008. The increase in our wireless business segment's cash flows from operating activities was a result of higher collection of receivables partially offset by a higher settlement of various payables in the first quarter of 2009. On the other hand, cash flows from operating activities of our ICT business decreased by Php54 million, or 18%, to Php252 million in the first quarter of 2009 from Php306 million in the same period in 2008 mainly due to higher settlement of various liabilities. Cash flows from operating activities of our fixed line business decreased by Php7,957 million, or 120%, to cash used of Php1,347 million in the first quarter of 2009 from cash provided of Php6,610 million in the same period in 2008. The decrease was primarily due to advances to the beneficial trust fund partially offset by lower settlement of various liabilities. The overall decrease in our cash flows from operating activities was primarily due to higher working capital requirements with advances to the beneficial trust fund, higher billings and lower collection of accounts receivable and higher level of settlement of various current liabilities.

We believe that our continuing strong cash flows from operating activities on a consolidated basis will allow us to satisfy our current liabilities as our current ratio is less than 1:1 as at March 31, 2009 and 2008.

Investing Activities

Consolidated net cash provided by investing activities amounted to Php1,619 million in the first quarter of 2009, as against net cash used in investing activities of Php12,919 million in the same period in 2008. The difference resulted from a combination of: (1) higher net proceeds from the maturity of short-term investments of Php14,705 million; (2) higher net proceeds of Php364 million from the maturity of investments in debt securities; and (3) increase in capital expenditures of Php893 million in the first quarter of 2009.

Our consolidated capital expenditures in the first quarter of 2009 totaled Php3,944 million, an increase of Php893 million, or 29%, as compared with Php3,051 million in the same period in 2008 primarily due to an increase in PLDT's capital spending. PLDT's capital spending of Php2,379 million was principally used to finance the expansion and upgrade of its submarine cable facilities, fixed line data and IP-based network services. Smart's capital spending of Php1,463 million in the first quarter of 2009 was used primarily to expand its HSPA 850 and broadband networks, and to further upgrade its core, access and transmission network facilities. ePLDT and its subsidiaries' capital spending of Php87 million was primarily used to fund the continued expansion of its customer interaction solution facilities. The balance represented other subsidiaries' capital spending.

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

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

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

Financing Activities

On a consolidated basis, net cash provided by financing activities amounted to Php604 million in the first quarter of 2009 as against a net cash used in financing activities of Php159 million in the same period in 2008. The difference of Php763 million largely resulted from the combined effects of the following: (1) higher proceeds from the issuance of long-term debt of Php2,624 million; (2) higher debt repayments of Php1,045 million; (3) higher cash dividend payments of Php441 million; (4) higher interest payments of Php192 million; and (5) higher settlement of derivatives of Php170 million.

Debt Financing

Additions to our consolidated debt for the three months ended March 31, 2009 and 2008 totaled Php6,745 million and Php4,121 million, respectively, mainly from PLDT's drawings related to the financing of our capital expenditure requirements. Payments in respect of principal and interest of our total debt amounted to Php2,988 million and Php1,122 million, respectively, in the first quarter of 2009 and Php1,943 million and Php930 million, respectively, in the same period in 2008.

Our consolidated long-term debt increased by Php5,202 million, or 7%, to Php78,560 million in the first quarter of 2009, largely due to drawings from our term loan facilities and the depreciation of the Philippine peso in the first quarter of 2009 as compared with the peso appreciation in the same period in 2008 resulting to higher peso equivalents of our foreign currency-denominated debts, partially offset by debt amortizations and prepayments. The debt levels of PLDT increased by 16% to Php44,990 million, while the debt level of Smart decreased by 3% to Php32,916 million in the first quarter of 2009 as compared with the levels as at December 31, 2008.

On February 20, 2009, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated February 18, 2009, comprised of Series A 5-year notes amounting to Php2,390 million, Series B 7-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,510 million. Proceeds from the facility will be used to finance capital expenditures of PLDT.

On March 6, 2009, PLDT signed a loan agreement with Banco de Oro Unibank, Inc. amounting to Php2,500 million to finance capital expenditures and/or refinance loan obligations which were utilized for service improvements and expansion programs. The loan is payable after five years from drawdown date. As at March 31, 2009, the undrawn balance of the loan was Php2,500 million, which was subsequently drawn on April 17, 2009.

Approximately Php41,467 million principal amount of our consolidated outstanding long-term debt as at March 31, 2009 is scheduled to mature over the period from 2009 to 2012. Of this amount, Php24,327 million is attributable to PLDT, Php16,487 million to Smart and the remainder to Mabuhay Satellite and ePLDT.

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

Debt Covenants

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

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

Financing Requirements

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

Consolidated cash dividend payments in the first quarter of 2009 amounted to Php491 million as compared with Php50 million paid to shareholders in the same period in 2008. On August 5, 2008, we declared a regular cash dividend of Php70 per share and on March 3, 2009, we declared our regular and special cash dividends of Php70 per share and Php60 per share, respectively, representing approximately 100% payout of our 2008 earnings per share on an adjusted basis (excluding asset impairment on non-current assets and gains/losses on foreign exchange revaluation and derivatives).

Off-Statement of Financial Position Arrangements

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

Equity Financing

PLDT raised Php10 million and Php5 million from the exercise by certain officers and executives of stock options in the first quarter of 2009 and 2008, respectively. In addition, through our subscriber investment plan which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% cumulative convertible preferred stock as part of the upfront payments collected from subscribers, PLDT was able to raise Php1 million in the first quarter of 2008 from this source.

As part of our goal to maximize returns to our shareholders, in 2008, we obtained board of directors' approval for a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. As at March 31, 2009, we had acquired a total of 2.7 million shares of PLDT's common stock at a weighted average

price of Php2,388 per share for a total consideration of Php6,362 million in accordance with the share buyback program. The effect of the acquisition of shares of PLDT's common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for the three months ended March 31, 2009. Please refer to *Note 19 – Equity* to the accompanying unaudited consolidated financial statements for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations, see *Note 26 – Contractual Obligations and Commercial Commitments* to the accompanying unaudited consolidated financial statements.

Commercial Commitments

As at March 31, 2009 and December 31, 2008, our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php587 million and Php1,634 million, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

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

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

	Fair Values	
	March 31, 2009	December 31, 2008
	(Unaudited)	(Audited)
	(in millions)	
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities ⁽¹⁾	Php69	Php69
Unlisted equity securities ⁽²⁾	63	62
Investments in debt securities ⁽¹⁾	451	629
Advances and refundable deposits – net of current portion ⁽²⁾	710	728
Total noncurrent financial assets	<u>1,293</u>	<u>1,488</u>
Current Financial Assets		
Cash and cash equivalents ⁽²⁾	51,183	33,684
Short-term investments ⁽²⁾	2,945	6,670
Investment in debt securities ⁽¹⁾	665	1,656
Trade and other receivables ⁽²⁾	22,046	15,909
Derivative financial assets ⁽²⁾	15	56
Current portion of advances and refundable deposits ⁽²⁾	36	–
Total current financial assets	<u>76,890</u>	<u>57,975</u>
Total Financial Assets	<u>Php78,183</u>	<u>Php59,463</u>

	Fair Values	
	March 31, 2009	December 31, 2008
	(Unaudited)	(Audited)
	(in millions)	
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities ⁽³⁾	Php64,300	Php57,069
Derivative financial liabilities ⁽²⁾	2,079	1,761
Customers' deposits ⁽²⁾	1,465	1,476
Deferred credits and other noncurrent liabilities ⁽²⁾	8,356	7,959
Total noncurrent financial liabilities	76,200	68,265
Current Financial Liabilities⁽²⁾		
Accounts payable	15,370	16,294
Accrued expenses and other current liabilities	19,873	18,612
Derivative financial liabilities	2	87
Interest-bearing financial liabilities	15,887	15,080
Dividends payable	25,735	1,379
Total current financial liabilities	76,867	51,452
Total Financial Liabilities	Php153,067	Php119,717

(1) Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.

(2) Fair values determined using inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.

(3) Fair values of U.S. dollar notes were determined using observable inputs that reflect quoted prices in active markets while fair values of other loans and obligations under finance lease were determined using inputs other than quoted prices.

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

	March 31, 2009	December 31, 2008
	(Unaudited)	(Audited)
	(in millions)	
Profit and Loss		
Gains (losses) on derivative financial instruments	(Php506)	Php3,812
Interest income	533	1,668
Interest on loans and related items	(1,483)	(5,861)
Accretion on financial liabilities	(239)	(956)
Losses on cash flow hedges	-	(404)
Other Comprehensive Income		
Net losses available-for-sale financial assets	(3)	(9)
Net losses on cash flow hedges charged to other comprehensive income	-	(662)
Net gains on cash flow hedges removed from other comprehensive income taken to income	-	(697)
	(Php1,698)	(Php3,109)

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. In the first quarter of 2009, 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 the first quarter of 2009 was 6.9% as compared with 5.6% in the same period in 2008.

PART II – OTHER INFORMATION

Investment by Piltel in Meralco

On March 12, 2009, First Philippine Holdings Corporation, First Philippine Utilities Corporation, or FPUC, and Lopez, Inc., together the Lopez Group, and PLDT, entered into an investment and cooperation agreement pursuant to which: (a) PLDT agreed to acquire, through Piltel as its designated affiliate, 223 million shares in Meralco, representing approximately 20% of Meralco's outstanding shares of common stock, for a cash consideration of Php20.07 billion, or Php90 per share, and (b) PLDT and the Lopez Group agreed on certain governance matters, including the right of PLDT or its designee to nominate certain senior management officers and members to the board of directors and board committees of Meralco. As part of the transaction, Piltel and the Lopez Group also entered into an exchangeable note agreement pursuant to which Piltel will purchase an exchangeable note to be issued by FPUC, with a face value of Php2 billion, exchangeable at Piltel's option into 22.2 million shares of common stock of Meralco, which will constitute part of the approximately 20% of Meralco's shares of common stock to be acquired by Piltel in this transaction. The exchange option is exercisable simultaneously with the acquisition of such shares by Piltel.

Meralco is the largest distributor of electricity in the Philippines with a service area spanning 9,337 square kilometers, where approximately a quarter of the total Philippine population resides. It has a customer base of about 4.5 million, comprising commercial, industrial, and residential customers. In addition to electrical distribution, Meralco undertakes several related businesses, including e-Meralco Ventures, Inc., which operates a fiber optic network of over 1,000 kilometers and provides leased line connections, metro ethernet connections and disaster recovery transport services.

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

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

Subject to the approval of Piltel shareholders and regulatory agencies, Piltel contemplates to sell/transfer its cellular business/assets to Smart through a series of transactions, which would include: (a) the sale of Piltel's "Talk 'N Text" brand to Smart for a consideration to be agreed upon between the parties; (b) the transfer of Piltel's existing Talk 'N Text subscriber base to Smart in consideration of a one-time payment equivalent to the average subscriber acquisition cost in 2008 of Smart for its *Smart Buddy* subscribers; and (c) the sale of Piltel's GSM fixed assets to Smart at net book value. In addition, Smart is currently evaluating a possible tender offer for shares of common stock of Piltel held by minority shareholders.

Related Party Transactions

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



ANNEX – AGING OF ACCOUNTS RECEIVABLE


The following table shows the unaudited aging of our consolidated receivables as at March 31, 2009:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
(In Millions)					
Corporate subscribers	Php10,514	Php2,708	Php1,465	Php696	Php5,645
Retail subscribers	8,712	1,514	1,108	331	5,759
Foreign administrations	4,891	1,234	769	737	2,151
Domestic carriers	871	171	90	89	521
Dealers, agents and others	10,324	10,068	19	51	186
Total	Php35,312	Php15,695	Php3,451	Php1,904	Php14,262
Less: Allowance for doubtful accounts ..	13,266				
Total Receivables - net	Php22,046				

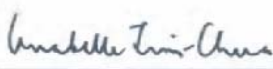
SIGNATURES

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

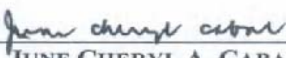
Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: 

NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title: 

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

Signature and Title: 

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

Date: May 5, 2009