PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 20-F
April 02, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report __________

Commission file number 1-03006

Philippine Long Distance Telephone Company
(Exact name of Registrant as specified in its charter)

Republic of the Philippines
(Jurisdiction of incorporation or organization)

Ramon Cojuangco Building
Makati Avenue
Makati City, Philippines
(Address of principal executive offices)

Atty. Ma. Lourdes C. Rausa-Chan, telephone: +(632) 816-8556; lrchan@pldt.com.ph;
Ramon Cojuangco Bldg., Makati Avenue, Makati City, Philippines
(Name, telephone, e-mail and/or facsimile number and address of Company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Capital Stock, Par Value Five Philippine Pesos Per Share	New York Stock Exchange*
American Depositary Shares, evidenced by American Depositary Receipts, each representing one share of Common Capital Stock	New York Stock Exchange

* *Registered on the New York Stock Exchange not for trading but only in*

connection with the registration of American Depositary Shares pursuant to the requirements of such stock exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

10.500% Notes due 2009

11.375% Notes due 2012

8.350% Notes due 2017

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as at the close of the period covered by the annual report.

As at December 31, 2008:

187,483,837 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share

441,480,512 shares of Serial Preferred Stock, Par Value Ten Philippine Pesos Per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP o

International Financial Reporting Standards as issued by the International Accounting Standards Board þ

Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes o No þ

TABLE OF CONTENTS

Table of Contents

Table of Contents

CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT

Unless the context indicates or otherwise requires, references to we, us, our or PLDT Group mean Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to PLDT mean Philippine Long Distance Telephone Company, not including its consolidated subsidiaries (see *Note 2 Summary of Significant Accounting Policies and Practices* to the accompanying audited consolidated financial statements in Item 18 for a list of these subsidiaries, including a description of their respective principal business activities).

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

All references to the Philippines contained in this report mean the Republic of the Philippines and all references to the U.S. or the United States are to the United States of America.

In this report, unless otherwise specified or the context otherwise requires, all references to pesos, Philippine pesos or Php are to the lawful currency of the Philippines, all references to dollars, U.S. dollars or US$ 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. Unless otherwise indicated, translations of peso amounts into U.S. dollars in this report were made based on the volume weighted average exchange rate quoted through the Philippine Dealing System, which was Php47.647 to US$1.00 on December 31, 2008. On March 31, 2009, the volume weighted average exchange rate quoted was Php48.422 to US$1.00.

In this report, each reference to:

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

Table of Contents

GAAP means generally accepted accounting principles;
GSM means global system for mobile communications;
I-Contacts means I-Contacts Corporation, a wholly-owned subsidiary of Smart;
IFRS means International Financial Reporting Standards as issued by the International Accounting Standards Board;
Infocom means Infocom Technologies, Inc., a 99.6%-owned subsidiary of ePLDT;
IP means internet protocol;
ISP means internet service providers;
Level Up! means Level Up!, Inc., a 60%-owned subsidiary of ePLDT;
Mabuhay Satellite means Mabuhay Satellite Corporation, a 67%-owned subsidiary of PLDT;
Maratel means PLDT-Maratel, Inc., a 97.5%-owned subsidiary of PLDT;
Meralco means Manila Electric Company;
netGames means netGames, Inc., an 80%-owned subsidiary of ePLDT;
NTC means the National Telecommunications Commission of the Philippines;
NTT means Nippon Telegraph and Telephone Corporation;
NTT Communications means NTT Communications Corporation, a wholly-owned subsidiary of NTT;
NTT DoCoMo means NTT DoCoMo, Inc., a majority-owned and publicly traded subsidiary of NTT;
NTTC-UK means NTT Communications Capital (UK) Ltd., a wholly-owned subsidiary of NTT Communications;
PAPTELCO means Philippine Association of Private Telephone Companies, Inc.;
Parlance means Parlance Systems, Inc., a wholly-owned subsidiary of ePLDT;
PFRS means Philippine Financial Reporting Standards;
Philcom means Philcom Corporation;
PHC means PH Communications Holdings Corporation;
Philippine SEC means the Philippine Securities and Exchange Commission;
Piltel means Pilipino Telephone Corporation, a 92.5%-owned subsidiary of Smart;
PLDT Beneficial Trust Fund means the beneficial trust fund created by PLDT to pay the benefits under the PLDT Employees Benefit Plan;
PLDT Global means PLDT Global Corporation, a wholly-owned subsidiary of PLDT;
PSE means the Philippine Stock Exchange;
SBI means Smart Broadband, Inc., a wholly-owned subsidiary of Smart;
SCH means SmartConnect Holdings Pte. Ltd., a wholly-owned subsidiary of Smart;
SGP means SmartConnect Global Pte., Ltd., a wholly-owned subsidiary of Smart;
SHI means SmartHub Incorporated, a wholly-owned subsidiary of Smart;
SIM means subscriber identification module;

Table of Contents

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

FORWARD-LOOKING STATEMENTS

Some information in this report may contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. 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 are generally 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. These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in Item 3. Key Information Risk Factors. When considering forward-looking statements, you should keep in mind the description of risks and other 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 statements in this report after the date hereof. In light of these risks and uncertainties, you should keep in mind that actual results may differ materially from any forward-looking statement made in this report or elsewhere.

Table of Contents

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as at December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008, included in this Annual Report on Form 20-F have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board, or IFRS. We adopted IFRS effective as at and for the fiscal year ended December 31, 2007 by applying IFRS 1: First-Time Adoption of International Reporting Standards. Our consolidated financial statements as at and for the year ended December 31, 2006 were originally prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and were restated in accordance with IFRS for comparative purposes only.

In accordance with rule amendments adopted by the U.S. SEC, which became effective on March 4, 2008, we do not provide a reconciliation to U.S. GAAP.

The consolidated financial statements included in our Annual Report on Form 20-F filed with the U.S. SEC, in respect of the years ended December 31, 2005 and 2004 were prepared in conformity with U.S. GAAP and, prior to that, in conformity with PFRS.

IFRS differs in certain significant aspects from U.S. GAAP and has some transitional differences with PFRS. As a result, our financial information presented under IFRS is not directly comparable with our historical financial information presented in conformity with U.S. GAAP or PFRS.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The selected audited consolidated financial information below as at December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008, should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, including the notes, included elsewhere in Item 18 in this Annual Report. As disclosed above under Presentation of Financial Information , our consolidated financial statements as at, and for the years ended, December 31, 2008, 2007 and 2006 have been prepared and presented in conformity with IFRS.

The selected consolidated financial information below as at and for the years ended December 31, 2005 and 2004 is based on financial statements prepared and presented in conformity with U.S. GAAP and should be read in conjunction with, and is qualified in its entirety by reference to, such consolidated financial statements, including the notes, included in our previous Annual Report for the fiscal year ended December 31, 2006 filed with the U.S. SEC on June 27, 2007.

Therefore, data for 2005 and 2004 are not comparable with data for 2008, 2007 and 2006 and are presented separately.

Table of Contents

Amounts in conformity with IFRS:

	2008[1]	2008	2007	2006
	(in millions, except earnings per common share amounts, ratio of earnings to fixed charges and dividends declared per common share amounts)			
Statements of Operating Data:				
Revenues	US$ 3,061	Php 145,837	Php 138,704	Php 127,508
Service revenues	2,999	142,873	135,478	124,988
Non-service revenues	62	2,964	3,226	2,520
Expenses	1,800	85,786	83,587	82,003
Net income[2]	734	34,976	39,274	32,581
Earnings per common share for the year attributable to equity holders of PLDT				
Basic	3.78	179.96	205.84	173.10
Diluted	3.78	179.95	204.88	173.01
Balance Sheets Data:				
Cash and cash equivalents	707	33,684	17,447	16,870
Total assets	5,301	252,558	240,158	241,904
Total long-term debt net of current portion	1,236	58,899	53,372	63,769
Total debt[3]	1,551	73,911	60,640	80,154
Total liabilities[4]	3,056	145,589	127,813	139,052
Total equity[2]	2,245	106,969	112,345	102,853
Other Data:				
Depreciation and amortization	519	24,709	28,613	31,869
Ratio of earnings to fixed charges[5]	8.0x	8.0x	8.3x	4.6x
Net cash provided by operating activities	1,643	78,302	77,418	69,211
Net cash used in investing activities	357	17,014	31,319	35,790
Net cash used in financing activities	954	45,464	44,819	45,900
Dividends declared to common shareholders	771	36,758	28,299	14,459
Dividends declared per common share	4.07	194.00	150.00	78.00

Table of Contents

Amounts in conformity with U.S. GAAP:

	2005		2004	
	(in millions, except operating income per share amounts, earnings per common share amounts, ratio of earnings to fixed charges and dividends declared per common share amounts)			
Statements of Operating Data:				
Revenues	Php	123,335	Php	121,173
Service revenues		120,348		114,904
Non-service revenues		2,987		6,269
Expenses		74,821		72,634
Operating income per share				
Basic		263.81		266.73
Diluted		255.15		252.20
Net income		40,603		28,101
Earnings per common share				
Basic		217.84		146.32
Diluted		211.93		145.30
Balance Sheets Data:				
Cash and cash equivalents		30,059		27,321
Total assets		269,709		279,041
Total long-term debt net of current portion		93,516		131,377
Total debt(3)		112,313		159,455
Total liabilities(4)		176,980		215,145
Total stockholders equity		79,595		48,079
Other Data:				
Depreciation and amortization		27,855		20,098
Ratio of earnings to fixed charges(5)		5.9x		4.1x
Net cash provided by operating activities		66,280		63,107
Net cash used in investing activities		13,080		24,764
Net cash used in financing activities		49,470		30,325
Dividends declared to common shareholders		9,624		
Dividends declared per common share		56.00		

(1) We maintain our accounts in Philippine pesos. For convenience, the peso financial information as at and for the year ended December 31, 2008, has been

translated into U.S. dollars at the exchange rate of Php47.647 to US$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2008. This translation should not be construed as a representation that the Philippine peso amounts represent, or have been or could be converted into, U.S. dollars at that rate or any other rate.

(2) *Net income and total equity under IFRS includes share of minority interest in consolidated net income and net assets, respectively.*

(3) *Total debt represents current portion of long-term debt, long-term debt net of current portion and notes payable.*

(4) *Total liabilities on a*

consolidated basis in 2008, 2007 and 2006 under IFRS represent the sum of current and noncurrent liabilities. Total liabilities on a consolidated basis in 2005 and 2004 under U.S. GAAP represent the difference between total assets and minority interest in consolidated subsidiaries, preferred stock subject to mandatory redemption and stockholders equity.

(5) *For purposes of this ratio, Earnings consist of: (a) pre-tax income from continuing operations before adjustment for minority interest in consolidated subsidiaries or income or loss from equity investees, (b) fixed charges, (c) amortization of capitalized interest, (d) distributed income of equity investees, and (e) share of*

pre-tax losses of equity investees for which charges arising from guarantees are included in fixed charges; less the sum of the following: (1) capitalized interest, (2) preference security dividend requirements of consolidated subsidiaries, and (3) the minority interest in pre-tax income of subsidiaries that have not incurred fixed charges

Fixed charges consist of interest expensed and capitalized interest, amortized premiums, discounts and capitalized expenses related to indebtedness, an estimate of interest within rental expense, and preference security dividend requirements of consolidated subsidiaries.

Table of Contents

Capital Stock

The following table summarizes PLDT s capital stock outstanding as at December 31, 2008 and 2007:

	December 31, 2008	2007
	(in millions)	
Serial Preferred Stock		
10% Cumulative Convertible Preferred Stock		
A to HH	Php 4,054.81	Php 4,056.50
Convertible Preferred Stock Subject to Mandatory Redemption		
Series V(1)	0.01	0.31
Series VI(1)	0.04	6.80
Cumulative Non-convertible Redeemable Preferred Stock		
Series IV	360.00	360.00
	Php 4,414.86	Php 4,423.61
Common Stock	Php 947.28	Php 943.70

(1) Preferred stock subject to mandatory redemption in 2008 (see Note 18 Interest-bearing Financial Liabilities Preferred Stock Subject to Mandatory Redemption to the accompanying audited consolidated financial statements in Item 18 for further discussion).

Dividends Declared

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

		Date		Amount
Earnings	**Approved**	**Record**	**Payable**	**Per share**

							Total Declared (in millions)
2006	August 8, 2006	August 21, 2006	September 21, 2006	Php	50	Php	9,379
2006	March 6, 2007	March 20, 2007	April 20, 2007		50		9,429
2006	August 7, 2007	August 24, 2007	September 24, 2007		40		7,548
					140		26,356
2007	August 7, 2007	August 24, 2007	September 24, 2007		60		11,322
2007	March 4, 2008	March 19, 2008	April 21, 2008		68		12,853
2007	March 4, 2008	March 19, 2008	April 21, 2008		56		10,585
					184		34,760
2008	August 5, 2008	August 22, 2008	September 22, 2008		70		13,140
2008	March 3, 2009	March 18, 2009	April 21, 2009		70		13,124
2008	March 3, 2009	March 18, 2009	April 21, 2009		60		11,249
				Php	200	Php	37,513

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

Dividends Paid

A summary of dividends paid per share of PLDT s common stock stated in both Philippine peso and U.S. dollars follows:

	In Philippine Peso	In U.S. Dollars
2006	78.00	1.543
2007	150.00	3.264
2008	194.00	4.474
Regular Dividend April 21, 2008	68.00	1.624
Regular Dividend September 22, 2008	70.00	1.513
Special Dividend April 21, 2008	56.00	1.337
2009	130.00	2.728
Regular Dividend March 3, 2009	70.00	1.429
Special Dividend March 3, 2009	60.00	1.226

Note: Dividends on PLDT s common stock were declared and paid in Philippine pesos. For the convenience of the reader, the peso dividends are translated into U.S. dollars based on the Philippine Dealing System Reference Rate on the respective dates of dividend payments.

Exchange Rates

The Philippine government does not administratively fix the exchange rate between the Philippine peso and the U.S. dollar. Since August 1, 1992, a market average rate has been determined daily in inter-bank trading using the Philippine Dealing System, known as the Philippine Dealing System Reference Rate. The Philippine Dealing System is a specialized off-floor direct dealing service for the trading of Philippine pesos-U.S. dollars by member banks of the Bankers Association of the Philippines and BSP, the central bank of the Philippines. All members of the Bankers Association of the Philippines are required to make their Philippine peso-U.S. dollar trades through this system, which was established by Telerate Financial Information Network of Hong Kong.

The following shows the exchange rates between the Philippine peso and the U.S. dollar, expressed in pesos per U.S. dollar, for the periods indicated, based on the volume-weighted average exchange rate for each business day in each of the periods presented:

	Year Ended December 31, Period End		Average[1]		High[2]		Low[3]	
2004	Php	56.341	Php	56.149	Php	55.142	Php	56.443
2005		53.062		55.006		53.062		56.321
2006		49.045		51.165		49.045		53.587
2007		41.411		45.879		41.142		49.156
2008		47.647		44.706		40.360		49.984
2009 (through March 31, 2009)		48.422		48.141		46.554		49.056

Source: Philippine Dealing System Reference Rate

(1) Calculated by using the average of the exchange rates on the last day of each month during the period.

(2) Highest exchange rate for the period.

(3) Lowest exchange rate for the period.

	Month Period End		Average[1]		High[2]	Low[3]
2008						
September	Php	47.264	Php	46.756	46.253	47.270
October		48.902		48.100	46.980	49.378
November		48.799		49.181	48.078	49.984
December		47.647		48.026	46.708	49.471
2009						
January		47.340		47.192	46.554	47.591
February		48.662		47.651	46.993	48.662
March (through March 31, 2009)		48.422		48.447	48.024	49.056

Source: Philippine Dealing System Reference Rate

(1) Calculated by using the

average of the exchange rates during the month.

(2) *Highest exchange rate for the month.*

(3) *Lowest exchange rate for the month.*

Table of Contents

This report contains conversions of Philippine peso amounts into U.S. dollars for your convenience. Unless otherwise specified, these conversions were made at the Philippine Dealing System Reference Rate as at December 31, 2008 of Php47.647 to US$1.00. You should not assume that such peso amounts represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rate indicated, or at any particular rate. As at March 30, 2009, the exchange rate quoted through the Philippine Dealing System was Php48.419 to US$1.00. The weighted average exchange rate of the Philippine peso to the U.S. dollar for a year used in the succeeding discussions in this report was calculated using the average of the daily exchange rates quoted through the Philippine Dealing System during the year.

Risk Factors

Risks Relating to Us

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

The Philippine government has liberalized the Philippine telecommunications industry and opened the Philippine telecommunications market to new entrants. Including the PLDT Group, there are eight major local exchange carriers, 11 international gateway facility providers and seven cellular service providers in the country. Many new entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technological and funding support as well as service innovations and marketing strategies. Consequently, we are facing increasing competition in major segments of the telecommunications industry, particularly data and other network services segments. There can be no assurance that the number of providers of telecommunication services will not further increase or that competition for telecommunications customers will not lead our cellular and fixed line subscribers to switch to other operators or lead us to increase our marketing expenditures or reduce our rates resulting in a reduction in our profitability.

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

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

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

The cellular telecommunications industry may not continue to grow

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

Table of Contents

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

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

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

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

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

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

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

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

- political and economic developments affecting the Philippines;
- global economic and financial trends;

the volatility of regional currencies, particularly the Japanese yen;

any interest rate increases by the Federal Reserve Bank of the United States;

higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations; and

foreign exchange traders including banks covering their short U.S. dollar positions.

Table of Contents

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

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

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

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

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

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

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

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

- our ability to identify suitable opportunities for investment or acquisition;
- our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;
- the extent to which we are able to exercise control over the acquired company;
- the economic, business or other strategic objectives and goals of the acquired company compared to those of the PLDT Group; and
- our ability to successfully integrate the acquired company or business with our existing businesses.

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

Pursuant to publicly available filings made with the PSE, as at February 28, 2009, NTT Communications and NTT DoCoMo together beneficially owned approximately 21% of the outstanding shares of PLDT s common stock. First Pacific and certain of its affiliates, or the FP Parties, NTT Communications, NTT DoCoMo and PLDT entered into a Cooperation Agreement, dated January 31, 2006, pursuant to which, among other things, certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, or the Strategic Agreement, and the Shareholders Agreement dated March 24, 2000, or the Shareholders Agreement, were extended to NTT DoCoMo. See Item 7. Major Shareholders and Related Party Transactions for further details regarding the shareholdings of NTT Communications and NTT DoCoMo in PLDT. As a result of the Cooperation Agreement, NTT Communications and NTT DoCoMo, in coordination with each other, have contractual veto rights over a number of major decisions and transactions that PLDT could make or enter into, including:

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

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

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

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

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

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

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

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

Table of Contents

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

In order to diversify the ownership base of public utilities, the Philippine Public Telecommunications Policy Act, Republic Act, or R.A., 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchanges representing at least 30% of its aggregate common shares within a period of five years from (a) the date the law became effective or (b) the entity s first start of commercial operations, whichever date is later. As the timeframe has lapsed without Smart having conducted a public offering of its shares, the Philippine Congress may revoke the franchise of Smart for its failure to comply with the requirement under R.A. 7925 on the public offering of its shares. A *quo warranto* case may also be filed against Smart by the Office of the Solicitor General of the Philippines for the revocation of the franchise of Smart on the ground of violation of R.A. 7925.

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

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

We operate our business under franchises, each of which is subject to amendment, termination or repeal by the Philippine Congress. Additionally, PLDT operates pursuant to various provisional authorities and certificates of public convenience and necessity, or CPCNs, which were granted by the NTC and will expire between now and 2028. For a description of our licenses, see Item 4. Information on the Company Licenses and Regulation. Some of PLDT s CPCNs and provisional authorities have already expired. However, PLDT filed applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC s decisions on these extensions. Because PLDT filed the applications for extension on a timely basis, we expect that these extensions will be granted. However, there can be no assurance that the NTC will grant these extensions. Smart also operates its cellular, international long distance, national long distance and global mobile personal communications via satellite services as well as international private leased circuits pursuant to CPCNs, which will expire upon the expiration of its franchise. Smart s franchise is due to expire on March 27, 2017, 25 years after the date on which its current franchise was granted.

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

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

There are also various bills pending in the Philippine Congress which propose to impose a franchise tax on telecommunication companies and to tax telecommunications services, among them, the imposition of a tax on mobile phone companies on all text entries to text games; the imposition of a Php0.50 specific tax on each SMS to be borne by the cellular phone companies; imposition of a 10% ad valorem tax on all cellular phone calls using 3G; the prohibition on telecommunications companies from imposing fees and/or charges on text messages between subscribers of the same telecommunications company and providing for free text messages until the prepaid amount has been fully used up; and the imposition of an additional Php0.10 tax on text messaging charges. In addition, there is a pending bill which seeks to impose on telecommunications companies a 20% tax on the gross receipts from text messaging services for a period of five years, where the proceeds of such tax will be used to fund educational projects. See Item 4. Information on the Company Licenses and Regulations Material effects of regulation on our business. If any of these bills are enacted into law, such legislation would have a material and adverse impact on our results of operations and financial condition. There can be no assurance that we would be able to impose additional charges or fees to compensate for the imposition of such taxes or charges, or for the loss of fees and/or charges.

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

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

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

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

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

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

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

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

Table of Contents

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

(a) guidelines on the mandatory interconnection of backhaul networks to the cable landing station, which were issued and became effective on October 7, 2008; and

(b) guidelines on the interconnection of local exchange carriers, or LECs, in local calling areas that eliminate interconnection access charges between LECs within a local calling area, which were issued and became effective on May 30, 2008.

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

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

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

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

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

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

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

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

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

Table of Contents

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

Risks Relating to the Philippines

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

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

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

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

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

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

The Philippine government has, in the past, instituted restrictions on the conversion of the peso into foreign currency and the use of foreign exchange received by Philippine companies to pay foreign currency-denominated obligations. The Monetary Board of the BSP has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, to:

- suspend temporarily or restrict sales of foreign exchange;
- require licensing of foreign exchange transactions; or
- require the delivery of foreign exchange to the BSP or its designee banks.

There can be no assurance that foreign exchange controls will not be imposed in the future. If imposed, these restrictions could materially and adversely affect our ability to obtain foreign currency to service our foreign currency obligations.

The occurrence of natural catastrophes may materially disrupt our operations

The Philippines has experienced a number of major natural catastrophes over the years including typhoons, volcanic eruptions and earthquakes that may materially disrupt and adversely affect our business operations. The earthquake that hit Taiwan on December 26, 2006 severed cable systems linking the Philippines to other Asian and American countries, causing major slowdown of voice and non-voice data traffic exchange. There can be no assurance that the insurance coverage PLDT maintains for these risks will adequately compensate it for all damages and economic losses resulting from natural catastrophes.

Item 4. Information on the Company

Overview

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

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

Our common shares are listed and traded on the PSE and our American Depositary Shares, or ADSs, evidenced by American Depositary Receipts, or ADRs, are listed and traded on the New York Stock Exchange, or NYSE, in the United States.

We had a market capitalization of approximately Php405,903 million (US$8,341 million) as at February 28, 2009, representing one of the largest market capitalizations among Philippine-listed companies. For the year ended December 31, 2008, we had total revenues of Php145,837 million (US$3,061 million).

Our principal executive offices are located at the Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines and our telephone number is +(632) 816-8534. Our website address is *www.pldt.com.ph*. The contents of our website are not a part of this annual report.

Historical Background and Development

PLDT was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT s incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, the First Pacific Group acquired a significant interest in PLDT. On March 24, 2000, NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (U.K.) Limited, or NTTC-UK, became PLDT s strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT. Simultaneous with NTT Communications investment in PLDT, we acquired 100% of Smart. On March 14, 2006, NTT DoCoMo acquired from NTT Communications approximately 7% of PLDT s then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT s common shares. Since March 14, 2006, NTT DoCoMo has made additional purchases of shares of PLDT s common stock and together with NTT Communications beneficially owned approximately 21% of the outstanding shares of PLDT s common stock as at February 28, 2009. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC. This investment in PTIC, a shareholder of PLDT, represents an attributable interest of approximately 6.4% of the then issued common shares of PLDT and thereby raised the First Pacific Group s beneficial ownership to approximately 28% of PLDT s shares of common stock as at that date. First Pacific Group had beneficial ownership of approximately 26.37% in PLDT s outstanding common stock as at February 28, 2009. See Item 7. Major Shareholders and Related Party Transactions for further discussion.

PLDT s original franchise was granted in 1928 and was last amended in 1991, extending its effectiveness until 2028 and broadening PLDT s franchise to permit PLDT to provide virtually every type of telecommunications service. PLDT s franchise covers the business of providing basic and enhanced telecommunications services in and between the provinces, cities and municipalities in the Philippines and between the Philippines and other countries and territories including mobile, cellular, wired or wireless telecommunications system, fiber optics, multi-channel transmission distribution systems and their VAS such as but not limited to transmission of voice, data, facsimile, control signals, audio and video, information services bureau and all other telecommunications systems technologies, as are at present available or can be made available through technical advances or innovations in the future. See Item 8. Financial Information Legal Proceedings Quo Warranto Action for information regarding legal proceedings initiated by the Solicitor General with respect to PLDT s franchise.

Our consolidated capital expenditures amounted to Php25,203 million and Php24,824 million in 2008 and 2007, respectively. Of these amounts, Php7,209 million and Php9,912 million were attributable to PLDT in 2008 and 2007, respectively, while Php17,091 million and Php14,179 million were spent by Smart in 2008 and 2007, respectively. The remaining balances were spent by our other subsidiaries, principally ePLDT and its subsidiaries. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Investing Activities.

Recent Developments

Acquisition of Debt and Equity of Philcom Corporation, or Philcom

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

On January 3, 2009, PLDT, PGR and Philippine Global Communications, Inc., or PGCI, executed a Share Assignment Agreement wherein PGCI sold to PLDT all of the outstanding common shares of Philcom for a total consideration of Php75 million. PGR controls 55% of the shares of PGCI through a voting trust agreement. Both parties have filed the necessary application/petition for the approval of this transaction by the NTC. See *Note 11 Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 18.

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

Investment by Piltel in Meralco

On March 12, 2009, FPHC, FPUC, and Lopez, Inc., together the Lopez Group, and PLDT entered into an investment and cooperation agreement pursuant to which: (a) PLDT agreed to acquire, through Piltel as its designated affiliate, 223 million shares in Meralco, representing approximately 20% of Meralco s outstanding shares of common stock, for a cash consideration of Php20.07 billion, or Php90 per share, and (b) PLDT and the Lopez Group agreed on certain governance matters, including the right of PLDT or its designee to nominate certain senior management officers and members of the Board of Directors and Board Committees of Meralco. As part of the transaction, Piltel and the Lopez Group also entered into an exchangeable note agreement pursuant to which Piltel will purchase an exchangeable note to be issued by FPUC, with a face value of Php2 billion, exchangeable at Piltel s option into 22,222,222 shares of common stock of Meralco, which will constitute part of the approximately 20% of Meralco s shares of common stock to be acquired by Piltel in this transaction. The exchange option is exercisable simultaneously with the acquisition of such shares by Piltel.

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

Table of Contents

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

Contemplated Consolidation of Cellular Business under Smart

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

Organization

PLDT Group includes the following significant subsidiaries as at February 28, 2009:

Name of Subsidiary	Place of Incorporation	Principal Activity	Percentage of Ownership Direct	Percentage of Ownership Indirect
Wireless				
Smart	Philippines	Cellular mobile services	100.0	
Smart Broadband, Inc.	Philippines	Internet broadband distribution		100.0
SmartConnect Holdings Pte. Ltd.	Singapore	Investment company		100.0
I-Contacts Corporation	Philippines	Customer interaction solutions		100.0
Wolfpac Mobile, Inc.	Philippines	Mobile applications development and services		100.0
SmartConnect Global Pte. Ltd.	Singapore	International trade of satellites and GSM enabled global telecommunications		100.0
Wireless Card, Inc.	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards		100.0
Smarthub, Incorporated	Philippines	Development and sale of software, maintenance and support services		100.0
Smart Money Holdings Corporation	Cayman Islands	Investment Company		100.0
Smart Money, Inc.	Cayman Islands	Mobile commerce solutions marketing		100.0
Telecoms Solutions, Inc.	Mauritius	Mobile commerce platforms		100.0
Far East Capital Limited	Cayman Islands	Cost effective offshore financing and risk management activities for		100.0

		Smart		
PH Communications Holdings Corporation	Philippines	Investment company		100.0
Francom Holdings, Inc.	Philippines	Investment company		100.0
Connectivity Unlimited Resource Enterprise	Philippines	Cellular mobile services		100.0
Airborne Access Corporation	Philippines	Wireless Internet services		99.4
Pilipino Telephone Corporation	Philippines	Cellular mobile services		92.5
3rd Brand Pte. Ltd.	Singapore	Solutions and systems integration services		85.0
Telesat, Inc.	Philippines	Satellite communications services	100.0	
ACeS Philippines Cellular Satellite Corporation	Philippines	Satellite information and messaging services	88.5	11.5
Mabuhay Satellite Corporation	Philippines	Satellite communications services	67.0	
Fixed Line				
PLDT Clark Telecom, Inc.	Philippines	Telecommunications services	100.0	
PLDT Subic Telecom, Inc.	Philippines	Telecommunications services	100.0	
Philcom Corporation	Philippines	Telecommunications services	100.0	
PLDT Global Corporation	British Virgin Islands	Telecommunications services	100.0	
Smart-NTT Multimedia, Inc.	Philippines	Data and network services	100.0	
PLDT-Maratel, Inc.	Philippines	Telecommunications services	97.5	
Bonifacio Communications Corporation	Philippines	Telecommunications, infrastructure and related value-added services	75.0	

Name of Subsidiary	Place of Incorporation	Principal Activity	Percentage of Ownership Direct	Indirect
Information and Communications Technology, or ICT				
ePLDT, Inc., or ePLDT	Philippines	Information and communications infrastructure for Internet-based services, e-commerce, customer interaction solutions and IT-related services	100.0	
SPi Technologies, Inc. and Subsidiaries	Philippines	Knowledge processing solutions		100.0
ePLDT Ventus, Inc.	Philippines	Customer interaction solutions		100.0
Vocativ Systems, Inc.	Philippines	Customer interaction solutions		100.0
Parlance Systems, Inc.	Philippines	Customer interaction solutions		100.0
Infocom Technologies, Inc.	Philippines	Internet access services		99.6
Digital Paradise Thailand	Thailand	Internet access services		87.5
netGames, Inc.	Philippines	Publisher of online games		80.0
Digital Paradise, Inc.	Philippines	Internet access services		75.0
Level Up! (Philippines), Inc.	Philippines	Publisher of online games		60.0

Level Up!, SPi and CyMed were all acquired in 2006 and their financial results have been included in our consolidated financial statements since February, July and August 2006, respectively. On April 12, 2007, SPi acquired a 100% equity interest in Springfield Service Corporation, or Springfield, a company engaged in the medical billing and revenue cycle management market in the United States.

On March 24, 2008, ePLDT acquired for Php1 million in cash additional shares from the minority stockholders of Airborne Access thereby increasing its 51% ownership interest to 99.4%.

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

On May 1, 2008, SBI acquired from ePLDT a 99.4% equity ownership in Airborne Access for a total consideration of Php25 million to strengthen and complement SBI s broadband internet service. As a result, Airborne Access business was transferred from our ICT segment to the wireless segment. The transaction had no impact on our consolidated financial statements.

On November 3, 2008, the Board of Directors of Piltel approved a share buyback program of up to 58 million shares in Piltel, representing approximately 0.5% of Piltel s outstanding common shares. As at December 31, 2008, Piltel has already purchased 44,586,000 shares at a cost of Php308 million, resulting in an increase in equity ownership by Smart in Piltel from 92.1% to 92.5%. In January 2009, Piltel completed the repurchase of 58 million shares earmarked for the share buyback program at a total cost of Php403 million. On March 2, 2009, Piltel s Board of Directors approved an increase in the number of common shares to be repurchased under the share buyback program of up to

25 million shares, through open market purchases, block trades or other modes subject to compliance with laws, rules and regulations.

See *Note 2 Summary of Significant Accounting Policies and Practices* and *Note 11 Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 18 for further discussion regarding these and other acquisitions.

Wireless

We provide cellular, and wireless broadband, satellite and other services through our wireless business, which contributed about 98% and 2% of our wireless service revenues, respectively, in 2008. The rapid growth in the cellular market has resulted in a change in our revenue composition and sources of our revenue growth. Starting with 2003, cellular service has become our major revenue source surpassing fixed line revenues. Cellular data services, which include all text messaging and text-related services ranging from ordinary text to VAS, contributed significantly to our revenue increase. Our total wireless service revenues accounted for 64%, 62% and 61% of our total consolidated revenues for the years ended December 31, 2008, 2007 and 2006, respectively. For the years ended December 31, 2008, 2007 and 2006, cellular service revenues accounted for 92%, 92% and 94%, respectively, of our total wireless revenues.

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

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

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

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

Fixed Line

We are the leading provider in the Philippines of fixed line telecommunications services. Our fixed line business group offers local exchange, international long distance, national long distance, data and other network and miscellaneous services. We had 1,782,356 fixed line subscribers as at December 31, 2008. Total revenues from our fixed line services accounted for 32%, 33% and 41% of our total revenues for the years ended December 31, 2008, 2007 and 2006, respectively. Local exchange, international long distance revenues, and national long distance revenues have been declining largely due to a drop in call volumes as a result of alternative means of communications such as texting, e-mailing and internet telephony. Mitigating these declines has been the steady growth of our data and other network services over the recent years. Recognizing the growth potential of the data and other network services segment, we have put considerable emphasis on the development of new packet-switched, data-capable and IP-based networks.

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

Table of Contents

Information and Communications Technology

Through our wholly-owned subsidiary, ePLDT, we provide broad-based integrated information and communications technology, or ICT, services focusing on infrastructure and solutions for internet applications, IP-based solutions and multimedia content delivery. ePLDT s principal activities are the operation of an internet data center under the brand name *Vitro* , customer interaction solutions (formerly referred to as call center business), knowledge processing solutions (formerly referred to as business process outsourcing), and internet and online gaming business. Total revenues from our ICT services accounted for 7% of our total revenues for each of the years ended December 31, 2008 and 2007 and for 5% of our total revenues for the years ended December 31, 2006.

Strengths

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

Recognized Brands. PLDT and Smart are strong and widely recognized brand names in the Philippines. We have built the PLDT brand name for 80 years as the leading telecommunications provider in the Philippines. Smart is recognized in the Philippines as an innovative provider of high-quality cellular services. Piltel s *Talk N Text* brand, which is provided using Smart s network, has also gained significant recognition as a value for money brand.

Leading Market Shares. With approximately 37 million fixed line and cellular subscribers as at December 31, 2008, we have the leading market positions in both the fixed line and cellular markets in the Philippines.

Diversified Revenue Sources. We derive our revenues from our three business segments, namely, wireless, fixed line and ICT businesses, with wireless contributing 61%, fixed line 32% and ICT 7% to our consolidated revenues in 2008. Revenue sources of our wireless business segment include cellular services, which include voice services and text message-related and VAS, and wireless broadband services. Our fixed line business derives service revenues from local exchange, international long distance, national long distance and data and other network services. In our ICT business, sources of revenue include knowledge processing solutions, customer interaction solutions and internet and online gaming, broadband and data center services. Fixed line revenues, which represented 32%, 33% and 36% of our consolidated revenues in 2008, 2007, and 2006, respectively, have been declining over the past years as a share of our consolidated revenues due to pressures on traditional fixed line voice revenues, resulting from decreases in our local exchange, international long distance and national long distance services, and reduced international interconnection rates. We will continue to identify and develop new revenue sources to further broaden our diversified revenue base for our wireless, fixed line and ICT businesses.

Advanced Integrated Network. With one of the most advanced and extensive telecommunications networks in the Philippines, we are able to offer a wide array of communications services. We are enhancing the capabilities of our fixed line and wireless networks to allow us to better exploit this competitive strength and achieve higher levels of network efficiency in providing voice and data services. In addition, we continue our upgrade to NGN and our roll out of 3G and wireless broadband in order to increase broadband subscribers, and expand our data/broadband capabilities.

Innovative Products and Services. We have successfully introduced a number of innovative and award-winning cellular products and services, including *Smart Load* and *Pasa Load. Smart Load* is an over-the-air electronic loading facility designed to make reloading of air time credits more convenient for, and accessible to consumers. *Pasa Load* (the term pasa means transfer), is a derivative service of *Smart Load* that allows load transfers to other *Smart Buddy* and *Talk N Text* subscribers.

Strong Strategic Relationships. We have important strategic relationships with First Pacific, NTT DoCoMo and NTT Communications. The technological support, international experience and management expertise made available to us through these strategic relationships enhance our market leadership and ability to provide and cross-sell a more complete range of products and services.

Table of Contents

Strategy

The key elements of our business strategy are:

Build on our leading positions in the fixed line and wireless businesses. We plan to build on our position as the leading provider of fixed line service in the Philippines by continuing to launch new products and services to increase subscriber value and utilization of our existing facilities and equipment at reduced cost. We plan to build on our position as the leading wireless service provider in the Philippines by continuing to introduce new products and services to increase our subscribers use of our network for both voice and data, as well as their reliance on our services. We are currently upgrading our fixed line facilities to NGN, and have rolled out a 3G network based on a W-CDMA technology as well as expanding our DSL and wireless broadband facilities. Our operating target is to continue growth in profitability by increasing our revenues while controlling our costs.

Capitalize on our strength as an integrated provider of telecommunications services. We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to maximize revenue opportunities by bundling and cross-selling our products and services, and by developing convergent products that feature the combined benefits of voice and data, fixed line, wireless and ICT services utilizing our network and business platforms. We are also lowering our costs by integrating the operations of our different businesses.

Strengthen our leading position in the data and broadband market. Leveraging on the inherent strength of our fixed line and wireless businesses, we are committed to further develop our fastest growing business segment broadband, data and other network services. Consistent with our strategy of introducing innovative products and services using advanced technology, we have launched various products and services that address different market needs.

Maintain a strong financial position and improve shareholder returns. In recent years, we have significantly improved our financial position by utilizing our cash flows principally for debt reduction. Our debt decreased to US$1.6 billion as at December 31, 2008. As the cash flows generated by our businesses have increased and our leverage ratios have improved, we have been able to restore the payment of cash dividends to our common shareholders beginning 2005 and have increased our cash dividend payout ratio in 2006, 2007 and 2008. We expect that a greater proportion of our free cash flows in succeeding years will be utilized for the payment of cash dividends to common shareholders and investments in new growth areas while continuing to maintain a healthy balance sheet position. As part of our growth strategy, we made and may continue to make acquisitions and investments in companies or businesses. We will continue to consider value-accretive investments in related businesses such as those in the global outsourcing and off-shoring industry.

Business

Wireless

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

Cellular Service

Overview

Our cellular business, which we provide through Smart, Piltel and CURE to over 35 million subscribers, approximately 99% of whom are prepaid subscribers, is focused on providing wireless voice communications, wireless data communications (primarily through text messaging) and a variety of other VAS, which includes (a) *Smart Money*; (b) specialized content such as ringtones, logos, caller ringback tunes; (c) *Mobile Banking* (banking services delivered over the cellular network); (d) international roaming; and (e) games and other VAS developed on Smart s platform. Smart services approximately 14.3 million subscribers of Piltel on its GSM network through a facilities service agreement with Piltel, under the brand name *Talk N Text*.

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

	2008		2007		2006	
Systemwide cellular subscriber base		35,224,604		30,041,030		24,175,384
Smart		20,899,753		20,339,204		17,201,005
Prepaid		20,501,617		19,997,324		16,882,442
Postpaid		398,136		341,880		318,563
Piltel(1)		14,308,493		9,701,826		6,974,379
CURE		16,358				
Growth rate of cellular subscribers		17%		24%		18%
Smart		3%		18%		12%
Piltel(1)		47%		39%		40%
CURE		100%				
Cellular revenues (in millions)	Php	87,518	Php	82,334	Php	75,617
Voice		37,287		36,105		35,233
Data		47,792		44,092		38,672
Others(1)		2,439		2,137		1,712
Percentage of cellular revenues to total wireless service revenues		94%		95%		96%
Percentage of cellular revenues to total service revenues		57%		57%		56%

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

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

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

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

to those of 2G services.
Voice Services. Cellular voice services comprise all voice traffic and voice VAS such as voice mail and international roaming. Voice services remain a significant contributor to wireless revenues, generating a total of Php37,287 million, or 43%, and Php36,105 million, or 44%, of cellular service revenues in 2008 and 2007, respectively. Local calls continue to dominate outbound traffic with 57% of all outbound minutes originating from our cellular service. In 2008, traffic volumes from local calls totaled 3,810 million minutes compared to 3,799 million minutes in 2007. National long distance traffic volumes totaled 70 million minutes in 2008 and 2007. Outbound international long distance remained at 2% of total outbound traffic with 221 million minutes and 201 million minutes generated in 2008 and 2007, respectively. The ratio of inbound-to-outbound international long distance minutes was 12.1:1 for 2008, compared to 11.7:1 in 2007.
Data Services. Cellular revenues from data services include all text messaging-related services and other data VAS. The Philippines cellular market is one of the most text messaging-intensive markets in the world, totaling more than a billion text messages per day. Text messaging is extremely popular in the Philippines, particularly on the prepaid platform, as it provides a convenient and inexpensive alternative to voice and e-mail based communications. Text messaging also utilizes less network capacity than voice, thereby increasing network efficiency.
Text messaging has been one of the key drivers for our cellular subscriber growth. Strong volume growth in text messaging contributed significantly to Smart s cellular revenue growth in 2008, generating revenues of Php47,792 million, an increase of Php3,700 million, or 8%, over 2007. In 2008, Smart and Piltel s text messaging systems handled over 24,378 million outbound messages on standard SMS services with another 223,373 million messages generated by the bucket-priced text services. This compares to 25,492 million outbound messages on standard SMS services in 2007 and 199,326 million outbound messages generated through bucket-priced text service.

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

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

Smart also offers the following value-added cellular services:

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

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

Due to the high level of text messaging service usage, we believe that the Philippine market is well suited for text-based informational and e-commerce services. Our current approach is to continue maximizing our GSM, or 2G, services while upgrading our network to Enhanced Data for GSM Evolution, or EDGE. EDGE is a technology that would further increase the speed and data capability of our GSM network. In addition, on December 29, 2005, Smart was awarded a 3G license by the NTC after being ranked highest by the NTC in garnering a perfect score on a 30-point grading system designed to gauge the capability of telecommunication operators to effectively provide extensive 3G services. As a result of being ranked highest, Smart received the largest radio frequency allocation of 15 MHz as well as first choice of frequency spectrum. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrum, the range that would best enable it to deploy its 3G network nationwide and at the same time offer the highest quality of 3G service.

Rates and Discounts

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

Smart Buddy and *Talk N Text* Call and Text prepaid cards are sold in denominations of Php300, Php500 and Php1,000, which include 33, 83 and 250 free text messages, respectively. While the stored value of a prepaid card remains valid for a period of two months from the time a subscriber activates the card, we launch from time to time promotions with shorter validity periods. The introduction of our over-the-air electronic loading facility *Smart Load* in 2003 made reloading of air time credits more convenient and accessible for consumers. *Smart Load s* over-the-air reloads have evolved to respond to market needs and now come in denominations of Php10, Php15, Php20, Php30, Php60 and Php115 with corresponding expiration periods.

29

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

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

We offer both flat rate, or regular, and consumable postpaid plans with monthly service fees ranging from Php500 to Php3,500. These plans are available with varying amounts of free air time and text messages and different rates beyond the free minutes and text messages, depending on the monthly service fee. Monthly service fees for flat rate, or regular, plans are applicable only to local calls and text messages and for consumable plans to all voice calls, text messages (both local and international) and VAS.

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

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

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

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

Table of Contents

Wireless Broadband, Satellite and Other Services

Overview

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

SBI

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

Airborne Access

Through Airborne Access, the country s leading operator of WiFi hotspots, which provides wireless internet access in hotspots nationwide equipped with Airborne Access WiFi access points.

Wolfpac

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

PLDT WeRoam

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

Mabuhay Satellite

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

ACeS Philippines

ACeS Philippines currently owns approximately 36.99% of AIL. AIL provides satellite-based communications to users in the Asia-Pacific region through the Garuda I satellite, or ACeS System and ACeS Service. AIL has entered into interconnection agreements and roaming service agreements with PLDT and other major telecommunications operators that allow ACeS service subscribers to access GSM terrestrial cellular systems in addition to the ACeS System. Further, AIL has an amended Air Time Purchase Agreement, or ATPA, with National Service Providers in Asia, including PLDT. In 2008, ACeS Philippines generated revenues of Php451 million and posted a net income of Php272 million. For further discussion regarding the ATPA, please see *Note 22 Related Party Transactions* and *Note 24 Contractual Obligations and Commercial Commitments* to the accompanying audited consolidated financial statements in Item 18.

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

Table of Contents

Revenues

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

Rates

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

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

WeRoam postpaid offers several packages for its wireless broadband service that include unlimited Internet or VPN access with speeds ranging from 40 kbps to 1.8 Mbps with monthly recurring fees of Php1,000, Php1,300 or Php1,700 depending on the type of plan selected.

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

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

Fixed Line

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

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

Local Exchange Service

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

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

	2008	2007	2006
Number of local exchange line subscribers	1,782,356	1,724,702	1,776,647
Number of fixed line employees	7,813	8,080	8,711
Number of local exchange line subscribers per employee	228	213	204
Total local exchange service revenues (in millions)	Php 15,923	Php 16,205	Php 16,965
Local exchange service revenues as a percentage of total fixed line service revenues	32%	33%	34%
Local exchange service revenues as a percentage of total service revenues	10%	11%	13%

Rates

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

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

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

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

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

International Long Distance Service

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

Table of Contents

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

	2008	2007	2006
Total call volumes (million minutes)	2,024	2,280	2,177
Inbound call volumes (million minutes)	1,786	2,007	1,984
Outbound call volumes (million minutes)	238	273	193
Inbound-outbound call ratio	7.5:1	7.4:1	10.3:1
Total international long distance service revenues (in millions)	Php 7,063	Php 8,674	Php 9,933
International long distance service revenues as a percentage of total fixed line service revenues	14%	18%	20%
International long distance service revenues as a percentage of total service revenues	5%	6%	7%

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

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

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

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

Rates

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

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

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

Table of Contents

National Long Distance Service

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

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

	2008	2007	2006
Total call volumes (million minutes)	1,944	2,183	2,251
Total national long distance service revenues (in millions)	Php 6,207	Php 6,338	Php 6,921
National long distance service revenue as a percentage of total fixed line service revenues	13%	13%	14%
National long distance service revenue as a percentage of total service revenues	4%	4%	5%

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

Rates

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

We continue to evaluate the rate structure of our national long distance services from per minute toll charges to flat rates per call for calls of unlimited duration. This is envisioned to make fixed line rates more competitive with VoIP rates and to revitalize interest in fixed line usage. We continue to study various pricing models in respect of the above new rate plans.

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

Data and Other Network Services

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

The following table summarizes key measures of our data and other network services as at and for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
Number of *DSL* broadband subscribers	432,583	264,291	133,159
Number of *PLDT Vibe* narrowband subscribers	101,411	230,995	297,250
Total data and other network service revenues (in millions)	Php 18,607	Php 15,921	Php 13,725
Data and other network service revenues as a percentage of total fixed line service revenues	38%	33%	28%
Data and other network service revenues as a percentage of total service revenues	12%	11%	10%

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

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

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

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

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

Information and Communications Technology

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

Knowledge Processing Solutions

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

Table of Contents

Customer Interaction Solutions

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

Internet and Online Gaming

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

Data Center

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

Infrastructure

Wireless Network Infrastructure

Cellular

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

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

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

We expect continued increases in coverage (particularly indoor) in the coming years, as well as the introduction of new types of BTS for indoor and commercial offices. Smart has introduced the *NanoBTS,* a compact and easy-to-deploy solution for indoor coverage and increased efficiencies in underserved offices and buildings. The new base station equipment uses IP for transport and Smart is one of the very first operators to deploy this access solution.
Smart was awarded a 3G license by the NTC in 2005 and received the largest radio frequency allocation of 15 MHz. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrum, the range that would best enable it to rapidly deploy its 3G network nationwide and at the same time offer the highest quality of 3G service. Smart has commenced its 3G network roll-out and continues to extend the reach of its 3G network in various cities and municipalities nationwide, further improving coverage in major urban centers and selected provincial areas.
Smart and Piltel have been co-locating their cell sites where their base stations are installed. As at December 31, 2008, 27 of Smart s mobile switching centers and 216 of Smart s cell sites were housed in PLDT s fixed line complexes while 248 of Smart s cell sites were co-located with Piltel. These operational synergies have allowed Smart to reduce switch installation time from three months to five weeks.

Wireless Broadband, Satellite and Other Services

SBI operates a nationwide broadband wireless internet data services. It is operating in the 2.4, 3.5 and 5.7 Ghz spectrum, supporting its WiFi, Canopy and eventually WiMax services, respectively. It offers fixed wireless broadband internet connectivity to both residential and corporate clients. It also maintains and operates WiFi hotspots installations that serve mobile internet users. Almost 2,000 of Smart s base stations are now wireless broadband-capable, covering most of the key cities and the other populated centers in the country. These are strategically co-located in Smart s cellular base stations that allow it to efficiently reach many subscribers. For its backbone, it uses the nationwide PLDT and Smart fiber optic and IP backbone that provide substantial bandwidth capacity to utilize and to grow on demand.
Mabuhay Satellite controls and operates the Agila 2 satellite, which has 30 C-band transponders and 24 Ku-band transponders covering the Asia-Pacific region, the Indian subcontinent and Hawaii. Of the 54 transponders, six have restricted usage due to satellite interference. Through the Agila 2 satellite, Mabuhay Satellite caters to providers of internet backbone access, and video and data broadcasting, and also provides bandwidth-on-demand, facilitating communication links between telecommunications, broadcast and other public utility companies operating in the Asia-Pacific region. In December 2000, Agila 2 satellite joined the U.S. FCC s Permitted Space Station list, which permits U.S.-owned and operated earth stations in Hawaii to access Agila 2 for transpacific telecommunications, data, video and internet-over-satellite traffic and vice versa.
ACeS Philippines manages, controls and operates its own satellite gateway and other ground infrastructure, including a 13-meter feeder-link C-band earth station, beam congruency antenna and equipment that serve as the primary interface between the ACeS System and other telecommunications networks. It uses the Garuda I satellite to transmit digital voice services to ACeS System, mobile and fixed terminal users within the Asian service area.

Fixed Line Network Infrastructure

Domestic

Our domestic telephone network includes installed telephones and other equipment on customers premises, local access lines connecting customers to exchanges, referred to as outside plant, inter-office lines connecting exchanges, and long distance transmission equipment. As at December 31, 2008 and 2007, we had 228 central office exchanges compared with 184 as at December 31, 2006.
We are currently upgrading our fixed line facilities to the Next Generation Network, or NGN, an IP-based platform that can deliver voice and data services using the same network. NGN enables us to replace the ageing Public Switched Telephone Network switches and transfer the existing customers to this new platform and acquire new customers for voice and data services. We expect to complete the upgrading of our fixed line facilities to NGN in 2012, providing subscribers with a diversified range of telecommunication services using IP technology.
We also have an Internet Gateway that provides premium service with high-speed, reliable and managed connectivity to the Internet. The gateway is composed of high capacity and high performance routers that serve as our IP network gateway to the rest of the world. It provides premium internet service to all types of customers ranging from ordinary broadband customers to high bandwidth internet requirements of corporate customers, knowledge processing solutions

providers, internet service providers and other service providers.

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

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

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

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

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

International

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

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

Cable System	Countries Being Linked
G-P	Guam and the Philippines
Asia-Pacific Cable Network	Korea, Japan, Hong Kong, Taiwan, Australia, Philippines, Singapore, Malaysia, Indonesia and Thailand
Asia-Pacific Cable Network 2	Philippines, Hong Kong, Japan, Korea, Malaysia, Singapore, China and Taiwan
Transpacific Cable No. 5	Guam, Japan, Hawaii and the U.S. Mainland
SEA-ME-WE-3	Japan, Korea, China, Taiwan, Hong Kong, Macau, Philippines, Vietnam, Brunei, Malaysia, Singapore, Indonesia, Australia, Thailand, Myanmar, Sri Lanka, India, Pakistan, United Arab Emirates, Oman, Djibouti, Saudi Arabia,

	Egypt, Cyprus, Turkey, Greece, Italy, Morocco, Portugal, France, UK, Belgium and Germany
Americas Cable 1	U.S. Mainland, U.S. Virgin Islands, Brazil, Trinidad and Venezuela
China-U.S. Cable	Japan, China, Taiwan, Korea, Guam and U.S. Mainland
Columbus II Cable	U.S. Mainland, Italy, U.S. Virgin Islands, Mexico, Portugal and Spain
FLAG Cable	Japan, Korea, China, Hong Kong, Malaysia, Thailand, India, United Arab Emirates, Saudi Arabia, Egypt, Italy, Spain and UK
RJK Cable	Russia, Japan and Korea
Southern Cross Cable	U.S. Mainland, Hawaii, Fiji, Australia and New Zealand
TVH Cable	Thailand, Vietnam and Hong Kong
EAC Cable	Japan, Hong Kong, Korea, Taiwan, Singapore and the Philippines
PC-1, Japan-U.S. Cable and TGN	Japan and the U.S.

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

Interconnection Agreements

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

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

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

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

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

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

Licenses and Regulations

Licenses

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

PLDT operates its business pursuant to a number of provisional authorities and CPCNs, the terms of which will expire at various times between now and 2028. The CPCNs pursuant to which PLDT may provide services to most of the Metropolitan Manila area, Davao and other Philippine cities expired in 2003. Although some of PLDT s CPCNs and provisional authorities have already expired, PLDT filed timely applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC s decision on these extensions. PLDT expects that the NTC will grant these extensions; however, there can be no assurance that this will occur. The period of validity of some of PLDT s CPCNs, has been extended further by the NTC to November 28, 2028, coterminous with PLDT s current franchise under R.A. 7082. Motions to extend the period of validity of the other CPCNs to November 28, 2028 are currently pending with the NTC. See Item 3. Key Information Risk Factors Risk Relating to Us Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes.

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

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

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

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

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

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

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

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

41

Table of Contents

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

CURE is a grantee of a 35-year congressional franchise under R.A. 9130, which expires on April 24, 2026, to construct, install, establish, maintain, lease and operate wire and/or wireless telecommunications system throughout the Philippines. The NTC granted CURE a provisional authority to install, operate and maintain a nationwide 3G network on January 3, 2006 valid for 18 months, which was subsequently extended for three years from January 4, 2007 until January 3, 2010.

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

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

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

Material Effects of Regulation on our Business

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

PLDT, Smart, Piltel, SBI and CURE are required to pay various permit, regulation and supervision fees to the NTC. PLDT was previously engaged in disputes with the NTC over some of the assessed fees. For more information on the disputes involving PLDT, see Item 8. Financial Information Legal Proceedings NTC supervision and regulatory fees, or SRF.

The Philippine Congress is considering two bills that relate to the imposition of franchise tax on telecommunications companies. HB No. 1469 proposes to re-impose a 5% franchise tax on gross receipts on telephone and telegraph services in lieu of the VAT. HB No. 1560 proposes a franchise tax at the rate of 3.5% on the first year and 7% thereafter on the gross receipts of telecommunications and broadcast companies, in lieu of the VAT. There are also various bills in Congress which propose to tax telecommunications services, among them, the imposition of a tax on mobile phone companies on all text entries to text games; the imposition of a Php0.50 specific tax on each SMS to be borne by the cellular phone companies; and the imposition of a 10% ad valorem tax on all cellular phone calls using 3G.

More recently, Congress has been deliberating on a bill that seeks to prohibit telecommunications companies from imposing fees and/or charges on text messaging between subscribers of the same telecommunications company and providing for free text messages until the prepaid load has been fully consumed. The Committee on Oversight of Congress is also holding discussions on the possibility of linking up the Bureau of Internal Revenue, or BIR, and NTC with the telecommunications companies through an electronic metering device, which discussions led to a proposal to impose an additional Php0.10 tax on text messaging.

The Senate is also considering Senate Bill No. 2402 which proposes to establish a Health and Education Acceleration Program Fund for special projects on educational development from the proceeds of income tax imposed on telecommunications companies at the rate of 20% of their gross receipts from short messaging service or text sent from and through their networks which would be remitted to the fund for a period of five years. This tax may not be passed on to consumers. Under the proposed bill, telecommunications companies shall no longer pay for the regular income tax on their income from these transactions during the five-year period that the special gross receipts tax on text messaging is imposed. The income tax scheme for text messaging shall revert to the regular income tax for corporations after the five-year period. Moreover, the bill proposes to allow telecommunications companies to deduct 10% of the tax remitted to the fund from their other income as ordinary business expense over a period of ten years. See Item 3. Key Information Risk Factors Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes.

In order to diversify the ownership base of public utilities, the Public Telecommunications Policy Act, R.A. 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchanges representing at least 30% of its aggregate common shares within a period of five years from (a) the date the law became effective or (b) the entity s first start of commercial operations, whichever date is later. PLDT and Piltel have complied with this requirement. However, Smart has not conducted a public offering of its shares. If Smart is found to be in violation of R.A. 7925, this could result in a revocation of the franchise of Smart and in the filing of a *quo warranto* case against Smart by the Office of the Solicitor General of the Philippines. See Item 3. Key Information Risk Factors The franchise of Smart may be revoked due to its failure to conduct a public offering of its shares for further discussion.

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

(a) guidelines on the mandatory interconnection of backhaul networks to the cable landing station, which were issued and became effective on October 7, 2008; and

(b) guidelines on the interconnection of local exchange carriers, or LECs, in local calling areas that eliminate interconnection access charges between LECs within a local calling area, which were issued and became effective on May 30, 2008.

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

Competition

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

Cellular Service

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

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

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

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

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

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

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

Local Exchange Service

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

Table of Contents

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

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

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

International Long Distance Service

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

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

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

National Long Distance Service

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

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

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

Table of Contents

Data and Other Network Services

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

Environmental Matters

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

Intellectual Property Rights

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

Properties

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

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

- 67% consisted of cable, wire and cellular facilities, including our domestic fiber optic network, subscriber cable facilities, inter-office trunking and toll cable facilities and cellular facilities;

- 16% consisted of central office equipment, including five international gateway facilities, six pure national toll exchanges and 15 combined local and toll exchanges, and our communications satellite;

- 11% consisted of land and improvements and buildings, which we acquired to house our telecommunications equipment, personnel, inventory and/or fleet;

- 5% consisted of information origination and termination equipment, including pay telephones and radio equipment installed for customers use, and cables and wires installed within customers premises; and

- 1% consisted of other work equipment.

For more information on these properties, see *Note 8 Property, Plant and Equipment* to the accompanying audited consolidated financial statements in Item 18.

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

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

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

On February 7, 2008, SBI completed the acquisition of the Cluster 3 local exchange carrier assets of Cruz Telephone Company, Inc., or Cruztelco, a local exchange operator offering fixed line services in North Eastern Mindanao. Please see *Note 8 Property, Plant and Equipment SBI s Acquisition of Cluster 3 Assets from Cruz Telephone Company, Inc., or Cruztelco* in the accompanying audited consolidated financial statements in Item 18 for further discussion.

On September 16, 2008, PLDT, its subsidiary Mabuhay Satellite, ProtoStar Ltd., or ProtoStar, a Bermuda-based company and its wholly-owned Bermuda subsidiary ProtoStar III, Ltd., or ProtoStar III, signed several agreements covering multiple areas of cooperation. Key aspects of the agreements include: (a) a lease to ProtoStar III of the transponders on the Agila 2 satellite; (b) an exchange of certain Mabuhay Satellite assets for an equity interest in ProtoStar; (c) expanded use of Mabuhay Satellite s Subic Space Center for the operation and control of satellites; (d) an option for PLDT to make further investments in ProtoStar; and (e) an agreement for PLDT to lease C-band transponder capacity on the ProtoStar I satellite owned and operated by ProtoStar I Ltd., also a wholly-owned Bermuda subsidiary of ProtoStar. Please see *Note 8 Property, Plant and Equipment Wholesale Transponder Lease Agreement between Mabuhay Satellite, ProtoStar Ltd., or ProtoStar, and ProtoStar III Ltd., or ProtoStar III* and *Note 24 Contractual Obligations and Commercial Commitments* in the accompanying audited consolidated financial statements in Item 18 for further discussion.

PLDT has various long-term lease contracts, the bulk of which have lease terms ranging from two to ten years covering certain offices, warehouses, telecommunications equipment locations and various office equipment. For more information on the obligations relating to these properties and long-term obligations, see *Note 24 Contractual Obligations and Commercial Commitments* to the accompanying audited consolidated financial statements in Item 18.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements (and the related notes) as at December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 included elsewhere in this report. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements as a result of particular factors such as those set forth under Forward-Looking Statements and Item 3. Key Information Risk Factors and elsewhere in this report. Our audited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with IFRS. For convenience, certain peso financial information in the following discussions has been translated to U.S. dollars at the exchange rate at December 31, 2008 of Php47.647 to US$1.00, as quoted through the Philippine Dealing System.

Overview

We are the largest and most diversified telecommunications company in the Philippines. We have organized our business into three main business segments which serve as the basis for management s decision to allocate resources and evaluate operating performance:

- *Wireless* wireless telecommunications services provided by Smart, Piltel and CURE, our cellular service providers; SBI and Airborne Access, our wireless broadband providers; Wolfpac, our wireless content operator; Mabuhay Satellite and ACeS Philippines, our satellite operator;
- *Fixed Line* fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT s subsidiaries, namely, ClarkTel, Subictel, Maratel, Piltel (on June 4, 2008, PLDT acquired the fixed line assets of Piltel), PLDT Global, and BCC, all of which account for approximately 2% of our consolidated fixed line subscribers; and

Information and Communications Technology information and communications infrastructure and services for internet applications, IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT; knowledge processing solutions provided by the SPi Group; customer interaction solutions provided under the umbrella brand name *ePLDT Ventus*, through Ventus, Parlance and Vocativ; internet access and online gaming services provided by Infocom, Digital Paradise, netGames and Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 9 Investments in Associates and Joint Ventures* to the accompanying audited consolidated financial statements in Item 18.

For a more detailed overview of our three main business segments, please see Item 4. Information on the Company Organization Wireless , Item 4. Information on the Company Organization Fixed Line and Item 4. Information on the Company Organization Information and Communications Technology , respectively.

Key performance indicators and drivers that our management uses for the management of our business include, among others, the general economic conditions in the Philippines, our subscriber base, traffic volumes, and interconnection arrangements.

In addition, our results of operations and financial position are significantly affected by fluctuations of the Philippine peso against the U.S. dollar. Since a substantial portion of our indebtedness is denominated in U.S. dollars, a depreciation of the Philippine peso against the U.S. dollar as at the end of the most recent fiscal year compared to the end of the previous fiscal year may result in our recognition of significant foreign exchange losses. For example, the Philippine peso depreciated against the U.S. dollar from Php41.411 as at December 31, 2007 to Php47.647 as at December 31, 2008, as a result of which we recognized in 2008 foreign exchange losses in the amount of Php6,170 million, representing a change of Php14,160 million from a foreign exchange gain of Php7,990 million recognized in 2007. Moreover, since approximately 34.5% of our revenues are either denominated in U.S. dollars or linked to the U.S. dollar, an appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar reduces our revenues in peso terms and reduces our cash flow from operations. For example, in 2008, the appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar from Php46.184 in 2007 to Php44.474 in 2008 adversely affected our U.S. dollar and U.S. dollar-linked revenues in peso terms. Please see Item 3. Key Information Risk Factors Our result of operations and financial position could be materially and adversely affected if the Philippine peso significantly fluctuates against the U.S. dollar .

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with IFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the reporting date. Due to uncertainties inherent in these assumptions and estimates actual results and outcomes could differ from our assumption and estimates. See *Note 3 Management s Use of Judgments, Estimates and Assumptions* to the accompanying audited consolidated financial statements in Item 18.

Judgments

In the process of applying the PLDT Group s accounting policies, management has made the following judgments, apart from those estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements within the next financial year. These judgments are discussed below.

Determination of functional currency

The functional currencies of the entities under PLDT Group are the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue and cost of rendering services.

Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional and presentation currency of the PLDT Group (except for SCH, SGP, 3rd Brand, Mabuhay Satellite, PLDT Global, DigiPar Thailand and SPi and certain of its subsidiaries) is the Philippine peso. On the other hand, functional and presentation currency of Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries is the U.S. dollar; Thai baht for DigiPar Thailand; and Singapore dollar for SCH, SGP and 3rd Brand.

Leases

As a lessee, we have various lease agreements as a lessee in respect of our certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us or retained by the lessor based on IAS 17, Leases, which requires us to make judgments and estimates of transfer of risk and rewards of ownership of the leased properties. Total lease expense arising from operating leases amounted to Php3,656 million, Php2,762 million and Php2,257 million for the years ended December 31, 2008, 2007 and 2006, respectively. Total finance lease obligations as at December 31, 2008 and 2007 amounted to Php70 million and Php496 million, respectively. See *Note 18 Interest-bearing Financial Liabilities, Note 24 Contractual Obligations and Commercial Commitments* and *Note 26 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18.

Legal contingencies

We are currently involved in various legal proceedings. Our estimate of the probable costs for the resolution of these claims has been developed based upon our analysis of potential results. We currently do not believe these proceedings will have a material adverse effect on our consolidated financial statements. It is possible, however, that future results of operations could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings. See *Note 25 Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 18.

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

Estimating useful lives of property, plant and equipment

We estimate the useful lives of our property, plant and equipment based on the periods over which our assets are expected to be available for use. Our estimation of the useful lives of our property, plant and equipment is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property, plant and equipment are reviewed at least at each financial year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property, plant and equipment would increase our recorded operating expenses and decrease our noncurrent assets.

Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization amounted to Php160,326 million and Php159,414 million as at December 31, 2008 and 2007, respectively. See *Note 8 Property, Plant and Equipment* and *Note 26 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18.

Determining the fair value of investment properties

We have adopted the fair value approach in determining the carrying value of our investment properties. We opted to rely on independent appraisers in determining the fair values of our investment properties, and such fair values were determined based on recent prices of similar properties, with adjustments to reflect any changes in economic conditions since the date of those transactions. The amounts and timing of recorded changes in fair value for any period would differ if we made different judgments and estimates or utilized a different basis for determining fair value.

Table of Contents

Total carrying values of our investment properties as at December 31, 2008 and 2007 amounted to Php617 million and Php577 million, respectively. See *Note 10 Investment Properties* to the accompanying audited consolidated financial statements in Item 18.

Goodwill and intangible assets

Our consolidated financial statements and results of operations reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the purchase method of accounting which requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree s identifiable assets and liabilities and contingent liabilities at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in the consolidated balance sheet. Our business acquisitions have resulted in goodwill and intangible assets, which are subject to annual impairment test and amortization, respectively. See *Note 11 Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 18. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree s assets and liabilities can materially affect our results of operations.

Total carrying values of goodwill and intangible assets as at December 31, 2008 and 2007 amounted to Php10,450 million and Php11,721 million, respectively. See *Note 11 Goodwill and Intangible Assets* and *Note 26 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18.

Realizability of deferred income tax assets

We reviewed the carrying amounts of deferred income tax assets at each balance sheet date and reduced these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized.

Based on the above assessment, we have not recognized certain of our consolidated deferred income tax assets as at December 31, 2008 and 2007 amounting to Php545 million and Php1,122 million, respectively. Total consolidated net deferred income tax assets as at December 31, 2008 and 2007 amounted to Php9,605 million and Php13,757 million, respectively, while total consolidated net deferred income tax liabilities as at December 31, 2008 and 2007 amounted to Php1,288 million and Php2,066 million, respectively. See *Note 4 Segment Information, Note 6 Income Tax* and *Note 26 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18.

Estimating allowance for doubtful accounts

If we assessed that there is an objective evidence that an impairment loss has been incurred in our trade and other receivables, we estimate the allowance for doubtful accounts related to our trade and other receivables that are specifically identified as doubtful of collection. The level of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. In these cases, we use judgment based on the best available facts and circumstances, including but not limited to, the length of our relationship with the customer and the customer s credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristic, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on historical loss experience using various factors such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total impairment provision for trade and receivables recognized in our consolidated statements of income amounted to Php1,079 million, Php417 million and Php736 million for the years ended December 31, 2008, 2007 and 2006, respectively. Trade and other receivables, net of impairment, amounted to Php15,909 million and Php12,645 million as at December 31, 2008 and 2007, respectively. See *Note 5 Income and Expenses, Note 14 Trade and Other Receivables* and *Note 26 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18.

Estimating net realizable value of inventories and supplies

We write down the cost of inventories whenever the net realizable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, change in price levels or other causes. The lower of cost and net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete and unusable are written-off and charged as expense in the consolidated statement of income.

Total write-down of inventories and supplies recognized for the years ended December 31, 2008, 2007 and 2006 amounted to Php242 million, Php243 million and Php211 million, respectively. The carrying values of inventories and supplies amounted to Php2,069 million and Php1,167 million as of December 31, 2008 and 2007, respectively. See *Note 5 Income and Expenses* and *Note 15 Inventories and Supplies* to the accompanying audited consolidated financial statements in Item 18.

Estimation of pension benefit costs and other retirement benefits

The determination of our obligation and cost for pension and other retirement benefits is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in *Note 23 Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18 and include, among other things, discount rates, expected rates of return on plan assets and rates of compensation increases. Actual results that differ from our assumptions are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension and other retirement obligations.

Total pension benefit costs amounted to Php725 million, Php1,773 million and Php1,003 million for the years ended December 31, 2008, 2007 and 2006, respectively. Unrecognized net actuarial loss as at December 31, 2008 amounted to Php1,126 million and unrecognized net actuarial gain as at December 31, 2007 amounted to Php1,344 million. The accrued benefit costs as at December 31, 2008 and 2007 amounted to Php2,623 million and Php2,985 million, respectively. See *Note 5 Income and Expenses* and *Note 23 Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18.

Share-based payment transactions

Our LTIP grants share appreciation rights, or SARs, to our eligible key executives and advisors. Under the LTIP, we recognize the services we receive from the eligible key executives and advisors, and our liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. We measure our liability, initially and at each reporting date until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. We recognize any changes in fair value at each reporting date until settled, in the results of operations for the year. The estimates and assumptions are described in *Note 23 Share-based Payments and Employee Benefits* and include, among other things, annual stock volatility, risk-free interest rate, dividends yield, the remaining life of options, and the fair value of common stock. While management believes that the estimates and assumptions used are reasonable and appropriate, significant differences in our actual experience or significant changes in the estimates and assumptions may materially affect the stock compensation costs charged to operations. The fair value of the LTIP recognized as expense for the years ended December 31, 2008, 2007 and 2006 amounted to Php1,281 million, Php1,448 million and Php3,150 million, respectively. As at December 31, 2008 and 2007, outstanding LTIP liability amounted to Php2,749 million and Php1,494 million, respectively. See *Note 5 Income and Expenses* and *Note 23 Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18.

Asset retirement obligations

Asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore or dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration or dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php1,100 million and Php952 million as at December 31, 2008 and 2007, respectively. See *Note 8 Property, Plant and Equipment* and *Note 19 Deferred Credits and Other Noncurrent Liabilities* to the accompanying audited consolidated financial statements in Item 18.

Asset impairment

IFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Determining the fair values of property, plant and equipment, investments and intangible assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires us to make estimates and assumptions that can materially affect our consolidated financial statements. Future events could cause us to conclude that property, plant and equipment, investments and intangible assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future additional impairment charges under IFRS. Total impairment charges (including provision for doubtful account receivables and write-down of inventories and supplies) for the years ended December 31, 2008, 2007 and 2006 amounted to Php4,180 million, Php1,317 million and Php2,766 million, respectively. See *Note 4 Segment Information*, *Note 5 Income and Expenses* and *Note 11 Goodwill and Other Intangible Assets* to the accompanying audited consolidated financial statements in Item 18.

The carrying values of our property, plant and equipment, investments in associates and joint ventures, goodwill and intangible assets, trade and other receivables and inventories and supplies are separately disclosed in Notes 8, 9, 11, 14 and 15, respectively, to the accompanying audited consolidated financial statements in Item 18, respectively.

Revenue recognition

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates will not result in material adjustments in future periods.

Revenues under a multiple element arrangement specifically applicable to our wireless business are split into separately identifiable components and recognized when the related components are delivered in order to reflect the substance of the transaction. The fair value of components is determined using verifiable objective evidence.

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and such amount is determined to be recoverable.

We recognize our revenues from installation and activation related fees and the corresponding costs over the expected average periods of customer relationship for fixed line and cellular services. We estimate the expected average period of customer relationship based on our most recent churn-rate analysis.

Determination of fair values of financial assets and liabilities

We carry certain of our financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments for the fair values of financial assets and liabilities. In addition, certain liabilities acquired through debt exchange and restructuring are required to be carried at fair value at the time of the debt exchange and restructuring. See *Note 26 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates), the amount of changes in fair value would differ if we utilized a different valuation methodology. Any change in fair value of these financial assets and liabilities would directly affect our consolidated statement of income and consolidated statement of changes in equity. Total fair values of financial assets and liabilities as at December 31, 2008 amounted to Php59,463 million and Php119,717 million, respectively, while the total fair values of financial assets and liabilities as at December 31, 2007 amounted to Php46,661 million and Php111,086 million, respectively. See *Note 26 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18.

New Accounting Pronouncements Effective Subsequent to 2008

Please see *Note 2 Summary of Significant Accounting Policies and Practices* to the accompanying audited consolidated financial statements in Item 18 for a discussion of new accounting standards that will become effective subsequent to December 31, 2008 and their anticipated impact on our consolidated financial statements.

Table of Contents

Results of Operations

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

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Total
			(in millions)		
For the year ended December 31, 2008					
Revenues	Php 95,852	Php 49,686	Php 10,983	Php (10,684)	Php 145,837
Expenses	47,589	35,733	13,267	(10,803)	85,786
Other expenses	2,640	3,173	1	188	6,002
Income (loss) before income tax	45,623	10,780	(2,285)	(69)	54,049
Net income (loss)	29,499	7,732	(2,186)	(69)	34,976
Net income (loss) attributable to equity holders of PLDT	28,628	7,727	(1,969)	(69)	34,317
For the year ended December 31, 2007					
Revenues	89,299	48,832	10,322	(9,749)	138,704
Expenses	44,530	37,891	11,005	(9,839)	83,587
Other income (expenses)	2,577	(64)	472	(21)	2,964
Income (loss) before income tax	47,346	10,877	(211)	69	58,081
Net income (loss)	31,780	7,519	(94)	69	39,274
Net income (loss) attributable to equity holders of PLDT	31,674	7,516	30	69	39,289
For the year ended December 31, 2006					
Revenues	80,405	49,255	6,890	(9,042)	127,508
Expenses	42,821	41,149	7,175	(9,142)	82,003
Other expenses	1,113	5,979	64	100	7,256
Income (loss) before income tax	36,471	2,127	(349)		38,249
Net income (loss)	30,127	2,766	(312)		32,581
Net income (loss) attributable to equity holders of PLDT	29,854	2,764	(233)		32,385

2008 Compared to 2007

On a Consolidated Basis

Revenues

Our revenues for 2008 increased by Php7,133 million, or 5%, to Php145,837 million from Php138,704 million in 2007. This increase was primarily due to an increase in our service revenues by Php7,395 million resulting largely from an increase in the service revenues of our wireless business, which was primarily due to an increase in the number of our cellular and broadband subscribers.

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

					Change	
	2008	%	2007	%	Amount	%

			(in millions)			
Wireless	Php 95,852	66	Php 89,299	64	Php 6,553	7
Fixed line	49,686	34	48,832	35	854	2
Information and communications technology	10,983	7	10,322	8	661	6
Inter-segment transactions	(10,684)	(7)	(9,749)	(7)	(935)	(10)
Total	Php 145,837	100	Php 138,704	100	Php 7,133	5

Expenses

Our expenses in 2008 increased by Php2,199 million, or 3%, to Php85,786 million from Php83,587 million in 2007 largely resulting from increases in asset impairment, resulting primarily from impairment of goodwill and intangible assets as well as trade and other receivables, repairs and maintenance, rent and compensation and benefits, which were partly offset by lower depreciation and amortization, and professional and other contracted services. As a percentage of our total revenues, total expenses decreased to 59% in 2008 from 60% in 2007.

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

	2008	%	2007 (in millions)	%	Change Amount	%
Wireless	Php 47,589	55	Php 44,530	53	Php 3,059	7
Fixed line	35,733	42	37,891	45	(2,158)	(6)
Information and communications technology	13,267	16	11,005	13	2,262	21
Inter-segment transactions	(10,803)	(13)	(9,839)	(11)	(964)	(10)
Total	Php 85,786	100	Php 83,587	100	Php 2,199	3

Other Income (Expenses)

Other expenses increased by Php8,966 million to Php6,002 million in 2008 from other income of Php2,964 million in 2007. The increase was primarily due to foreign exchange losses of Php6,170 million on account of a loss on revaluation of net foreign currency-denominated liabilities owing to the depreciation of the Philippine peso against the U.S. dollar from Php41.411 as at December 31, 2007 to Php47.647 as at December 31, 2008 compared with a net foreign exchange gain of Php7,990 million in 2007. This increase was partly offset by a gain on derivative transactions of Php3,115 million relating to the gain in the mark-to-market valuation of various financial instruments compared to a loss on derivative transactions of Php2,849 million in 2007.

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

	2008	%	2007 (in millions)	%	Change Amount	%
Wireless	Php (2,640)	44	Php 2,577	87	Php (5,217)	(202)
Fixed line	(3,173)	53	(64)	(2)	(3,109)	(4,857)
Information and communications technology	(1)		472	16	(473)	(100)
Inter-segment transactions	(188)	3	(21)	(1)	(167)	795
Total	Php (6,002)	100	Php 2,964	100	Php (8,966)	(302)

Provision for Income Tax

Provision for income tax increased by Php266 million, or 1%, to Php19,073 million in 2008 compared to Php18,807 million in 2007 mainly due to higher non-deductible expenses and derecognition of deferred income tax assets by ACeS Philippines, which were partly offset by lower taxable income in 2008. In 2008, our effective tax rate was 35% compared with 32% in 2007. We currently expect that in 2009 our provision for income tax will be reduced due to the reduction in the regular corporate tax rate from 35% in 2008 to 30% in 2009.

Net Income

As a result, our consolidated net income in 2008 was Php34,976 million, a decrease of Php4,298 million, or 11%, compared to Php39,274 million in 2007. The following table shows the breakdown of our consolidated net income for the years ended December 31, 2008 and 2007 by business segment:

	2008	%	2007	%	Change Amount	%

			(in millions)			
Wireless	Php 29,499	84	Php 31,780	81	Php (2,281)	(7)
Fixed line	7,732	22	7,519	19	213	3
Information and communications technology	(2,186)	(6)	(94)		(2,092)	(2,226)
Inter-segment transactions	(69)		69		(138)	(200)
Total	Php 34,976	100	Php 39,274	100	Php (4,298)	(11)

Table of Contents

On Business Segment Basis

Wireless

Revenues

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

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

	2008	%	2007 (in millions)	%	Increase (Decrease) Amount	%
Wireless Services:						
Service Revenues						
Cellular	Php 87,518	92	Php 82,334	92	Php 5,184	6
Wireless broadband, satellite and others	6,075	6	4,165	5	1,910	46
	93,593	98	86,499	97	7,094	8
Non-Service Revenues:						
Sale of cellular handsets and SIM-packs	2,259	2	2,800	3	(541)	(19)
Total Wireless Revenues	Php 95,852	100	Php 89,299	100	Php 6,553	7

Service Revenues

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

Cellular Service

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

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

	2008	2007 (in millions)	Increase Amount	%
Cellular service revenues	Php 87,518	Php 82,334	Php 5,184	6
By service type	*85,079*	*80,197*	*4,882*	*6*
Prepaid	78,743	74,284	4,459	6

Postpaid	6,336	5,913	423	7
By component	*85,079*	*80,197*	*4,882*	*6*
Voice	37,287	36,105	1,182	3
Data	47,792	44,092	3,700	8
Others[(1)]	*2,439*	*2,137*	*302*	*14*

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

Table of Contents

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

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

Voice Services

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

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

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as VAS, increased by Php3,700 million, or 8%, to Php47,792 million in 2008 from Php44,092 million in 2007 primarily due to an increase in bucket-priced domestic text messaging revenue resulting from an increase in the number of cellular subscribers. Cellular data services accounted for 55% of cellular service revenues in 2008 as compared with 54% in 2007.

Table of Contents

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

					Increase (Decrease)		
	2008		**2007**		**Amount**		**%**
			(in millions)				
Text messaging							
Domestic	Php	43,330	Php	39,430	Php	3,900	10
Bucket-Priced		*27,245*		*20,141*		*7,104*	*35*
Standard		*16,085*		*19,289*		*(3,204)*	*(17)*
International		1,877		1,835		42	2
		45,207		41,265		3,942	10
Value-added services							
Standard(1)		1,469		1,802		(333)	(18)
Rich Media(2)		627		352		275	78
Pasa Load		444		594		(150)	(25)
		2,540		2,748		(208)	(8)
Financial services							
Smart Money		41		75		(34)	(45)
Mobile Banking		4		4			
		45		79		(34)	(43)
Total	Php	47,792	Php	44,092	Php	3,700	8

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

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

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

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

VAS, which contributed revenues of Php2,540 million in 2008, decreased by Php208 million, or 8%, from Php2,748 million in 2007 primarily due to lower usage of standard services and *Pasa Load* , which is a service allowing prepaid subscribers to transfer small denominations of airtime credits to other prepaid subscribers (see Item 4 Business Wireless Rates and Discounts), owing to the introduction of low-denomination top-ups, partially offset by higher usage of rich media services in 2008 as compared with 2007.

Subscriber Base, ARPU and Churn Rates

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

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

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

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

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

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

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

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

	Gross(1)		Decrease		Net(2)		Decrease	
	2008	2007	Amount	%	2008	2007	Amount	%
Prepaid								
Smart	Php 290	Php 312	Php (22)	(7)	Php 230	Php 254	Php (24)	(9)
Piltel	194	221	(27)	(12)	158	184	(26)	(14)
Prepaid Blended(3)	254	285	(31)	(11)	203	233	(30)	(13)
Postpaid Smart	2,065	2,091	(26)	(1)	1,483	1,485	(2)	

Prepaid and Postpaid Blended[4]	274	307	(33)	(11)	217	248	(31)	(13)

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

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

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

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

prepaid subscribers of Piltel.

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

Gross average monthly ARPU for postpaid subscribers decreased by 1% to Php2,065 while net average monthly ARPU decreased to Php1,483 in 2008 as compared with Php2,091 and Php1,485 in 2007, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php274 in 2008, a decrease of 11%, compared with Php307 in 2007. Net average monthly blended ARPU decreased by 13% to Php217 in 2008 as compared with Php248 in 2007. Our average quarterly prepaid and postpaid ARPUs for the years ended December 31, 2008 and 2007 were as follows:

	Prepaid				Postpaid	
	Smart		Piltel		Smart	
	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)
2008						
First Quarter	Php 292	Php 230	Php 207	Php 163	Php 2,013	Php 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
2007						
First Quarter	Php 323	Php 267	Php 228	Php 187	Php 2,045	Php 1,483
Second Quarter	324	265	233	198	2,141	1,526
Third Quarter	293	239	206	173	2,073	1,464
Fourth Quarter	307	244	216	177	2,105	1,467

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

(2) *Net quarterly ARPU is calculated by dividing gross cellular service revenues, net of (i) discounts,(ii) allocated*

content-provider costs; and (iii) interconnection income net of interconnection expense, by the average number of subscribers in the quarter.

Wireless Broadband, Satellite and Other Services

Our revenues from wireless broadband, satellite and other services consist mainly of rentals received for the lease of Mabuhay Satellite s transponders, wireless broadband service revenues from SBI, charges for ACeS Philippines services and service revenues from the mobile virtual network operations of PLDT Global s subsidiary. SBI offers a number of wireless broadband services and had 547,090 subscribers as at December 31, 2008.

Gross service revenues from these services for 2008 amounted to Php6,075 million, an increase of Php1,910 million, or 46%, from Php4,165 million in 2007 principally due to the growth in our wireless broadband business. This was partially offset by lower satellite transponder rental revenues owing to lower rental charges and a decrease in the number of transponders being leased out as well as by the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar from Php46.184 in 2007 to Php44.474 in 2008, which adversely affected our U.S. dollar and U.S. dollar-linked revenues.

Non-service Revenues

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

Our wireless non-service revenues decreased by Php541 million, or 19%, to Php2,259 million in 2008 as compared to Php2,800 million in 2007 primarily due to lower volumes of postpaid and prepaid handsets sold and lower average revenues per cellular handset and cellular SIM-pack, partly offset by a higher volume of cellular SIM-packs sold in 2008.

Expenses

Expenses associated with our wireless business in 2008 amounted to Php47,589 million, an increase of Php3,059 million, or 7%, from Php44,530 million in 2007. A significant portion of this increase was attributable to increases in provisions, compensation and employee benefits, repairs and maintenance, taxes and licenses, rent and asset impairment, partially offset by lower expenses related to depreciation and amortization, and cost of sales. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 50% in 2008 and 2007.

Table of Contents

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

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

	2008	%	2007	%	Increase (Decrease) Amount	%
			(in millions)			
Wireless Services:						
Depreciation and amortization	Php 11,975	25	Php 12,202	27	Php (227)	(2)
Rent	9,267	20	8,751	20	516	6
Compensation and employee benefits[(1)]	5,433	11	4,608	10	825	18
Cost of sales	4,236	9	4,446	10	(210)	(5)
Repairs and maintenance	4,230	9	3,634	8	596	16
Selling and promotions	3,781	8	3,803	9	(22)	(1)
Professional and other contracted services	2,529	5	2,369	5	160	7
Taxes and licenses	1,872	4	1,348	3	524	39
Communication, training and travel	1,091	2	1,083	3	8	1
Asset impairment	1,006	2	563	1	443	79
Provisions	897	2			897	100
Insurance and security services	722	2	783	2	(61)	(8)
Amortization of intangible assets	133		158		(25)	(16)
Other expenses	417	1	782	2	(365)	(47)
Total	Php 47,589	100	Php 44,530	100	Php 3,059	7

(1) *Includes salaries and employee benefits, incentive plan, pension and manpower rightsizing program, or MRP, costs.*

Depreciation and amortization charges decreased by Php227 million, or 2%, to Php11,975 million in 2008 principally due to a decrease in our depreciable asset base consisting mainly of 2G networks, partly offset by increased depreciation on the growing asset base of 3G and broadband networks, and broadband customer-deployed equipment. Going forward, we expect our depreciation and amortization expenses to increase in line with our expected increase in capital expenditures in 2009, please see *Note 8 Property, Plant and Equipment* to the accompanying audited consolidated financial statements in Item 18 for a detailed discussion.

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

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

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

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

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

Professional and other contracted services increased by Php160 million, or 7%, to Php2,529 million primarily due to higher consultancy and payment facility fees.

Taxes and licenses increased by Php524 million, or 39%, to Php1,872 million primarily due to network expansion, the imposition of new licenses and fees on telecommunications entities and non-creditable input tax.
Communication, training and travel expenses increased by Php8 million, or 1%, to Php1,091 million primarily due to higher mailing, fuel and communication expenses incurred in 2008.
Asset impairment increased by Php443 million, or 79%, to Php1,006 million mainly due to the impairment of intangible assets relating to technology and license costs for development activities covering an IP communications platform and GSM connectivity service for the commercial shipping sector, and impairment on investment in ACeS International Limited through ACeS Philippines. Such impairments were partially offset by lower provision for inventory obsolescence and doubtful accounts. For discussion on impairment on intangible assets, please see *Note 11 Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 18.
Provisions of Php897 million pertained to provisions for assessments. Please see *Note 25 Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 18 for further details.
Insurance and security services decreased by Php61 million, or 8%, to Php722 million primarily due to lower insurance and bond premiums.
Amortization of intangible assets decreased by Php25 million, or 16%, to Php133 million mainly due to intangible assets relating to customer list arising from Smart s acquisition of SBI which was fully amortized by August 2007.
Other expenses decreased by Php365 million, or 47%, to Php417 million primarily due to lower various business and operational-related expenses.

Other Income (Expenses)

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

		2008		2007		Change Amount	Change %
				(in millions)			
Other Income (Expenses)							
Interest income	Php	1,197	Php	1,186	Php	11	1
(Losses) gains on derivative transactions net		(241)		278		(519)	(187)
Foreign exchange (losses) gains net		(1,771)		2,649		(4,420)	(167)
Financing costs		(2,029)		(2,299)		270	12
Others		204		763		(559)	(73)
Total	Php	(2,640)	Php	2,577	Php	(5,217)	(202)

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

Provision for Income Tax

Provision for income tax increased by Php558 million, or 4%, to Php16,124 million in 2008 from Php15,566 million in 2007. In 2008, the effective tax rate for our wireless business was 35% as compared with 33% in 2007 mainly due to higher non-deductible expenses and derecognition of deferred income tax assets by ACeS Philippines in 2008. We currently expect that in 2009 our provision for income tax will be reduced due to the reduction in the regular corporate tax rate from 35% in 2008 to 30% in 2009.

Net Income

Our wireless business segment recorded a net income of Php29,499 million in 2008, a decrease of Php2,281 million, or 7%, from Php31,780 million recorded in 2007 on account of an increase in wireless-related expenses and higher provision for income tax, partially offset by an increase in wireless service revenues.

Table of Contents

Fixed Line
Revenues

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

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

	2008	%	2007 (in millions)	%	Increase (Decrease) Amount	%
Fixed Line Services:						
Service Revenues						
Local exchange	Php 15,923	32	Php 16,205	33	Php (282)	(2)
International long distance	7,063	14	8,674	18	(1,611)	(19)
National long distance	6,207	13	6,338	13	(131)	(2)
Data and other network	18,607	37	15,921	32	2,686	17
Miscellaneous	1,466	3	1,413	3	53	4
	49,266	99	48,551	99	715	1
Non-Service Revenues:						
Sale of computers	420	1	281	1	139	49
Total Fixed Line Revenues	Php 49,686	100	Php 48,832	100	Php 854	2

Service Revenues

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php715 million, or 1%, to Php49,266 million in 2008 from Php48,551 million in 2007 primarily due to an increase in revenues from our data and other network services as a result of higher revenues contributed by our DSL and 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

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

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

	2008	2007	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php 15,923	Php 16,205	Php (282)	(2)
Number of fixed line subscribers	1,782,356	1,724,702	57,654	3
Postpaid	1,533,687	1,479,647	54,040	4
Prepaid	248,669	245,055	3,614	1

Number of fixed line employees	7,813	8,080	(267)	(3)
Number of fixed line subscribers per employee	228	213	15	7

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

In March 2007, PLDT launched *PLDT Landline Plus*, a postpaid fixed wireless service where subscribers to the service benefit from a text-capable home phone. The monthly service fee is at Php600 with 600 local minutes free and Php1,000 with 1,000 local minutes free for residential and business subscribers, respectively. In March 2008, we introduced the prepaid counterpart of *PLDT Landline Plus*. As at December 31, 2008, there were a total of 125,621 active *PLDT Landline Plus* subscribers, of which 61,604 and 64,017 were postpaid and prepaid subscribers, respectively.

International Long Distance Service

The following table shows information about our international fixed line long distance service business for the years ended December 31, 2008 and 2007, respectively:

	2008	2007	Decrease Amount	%
Total international long distance service revenues (in millions)	Php 7,063	Php 8,674	Php (1,611)	(19)
Inbound	5,667	7,127	(1,460)	(20)
Outbound	1,396	1,547	(151)	(10)
International call volumes (in million minutes, except call ratio)	2,024	2,280	(256)	(11)
Inbound	1,786	2,007	(221)	(11)
Outbound	238	273	(35)	(13)
Inbound-outbound call ratio	7.5:1	7.4:1		

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

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

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

National Long Distance Service

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

	2008	2007	Decrease Amount	%
Total national long distance service revenues (in millions)	Php 6,207	Php 6,338	Php (131)	(2)

National long distance call volumes (in million minutes)	1,944	2,183	(239)	(11)

Our national long distance service revenues decreased by Php131 million, or 2%, to Php6,207 million in 2008 from Php6,338 million in 2007 primarily due to a decrease in call volumes, partially offset by an increase in average revenue per minute for our national long distance services due to ceasing certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 13% in 2008 and 2007.

Data and Other Network Services

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

	2008	2007	Increase (Decrease) Amount	%
Data and other network service revenues (in millions)	Php 18,607	Php 15,921	Php 2,686	17
Number of *DSL* broadband subscribers	432,583	264,291	168,292	64
Number of *PLDT Vibe* narrowband subscribers	101,411	230,995	(129,584)	(56)

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

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

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

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

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

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

Miscellaneous

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

Non-service Revenues

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

Table of Contents

Expenses

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

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

					Increase (Decrease)	
	2008	**%**	**2007**	**%**	**Amount**	**%**
			(in millions)			
Fixed Line Services:						
Depreciation and amortization	Php 11,901	33	Php 15,477	41	Php (3,576)	(23)
Compensation and employee benefits[1]	9,093	25	10,411	27	(1,318)	(13)
Repairs and maintenance	4,634	13	3,772	10	862	23
Rent	2,492	7	1,799	5	693	39
Professional and other contracted services	2,143	6	1,727	5	416	24
Selling and promotions	1,715	5	1,552	4	163	11
Asset impairment	888	3	43		845	1,965
Taxes and licenses	769	2	877	2	(108)	(12)
Communication, training and travel	608	2	466	1	142	30
Insurance and security services	487	1	439	1	48	11
Cost of sales	356	1	300	1	56	19
Provisions	1		666	2	(665)	(100)
Other expenses	646	2	362	1	284	78
Total	Php 35,733	100	Php 37,891	100	Php (2,158)	(6)

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

Depreciation and amortization charges decreased by Php3,576 million, or 23%, to Php11,901 million in 2008 due to a lower depreciable asset base in 2008 as compared with 2007. Our NGN roll-out progressed at a significantly slower pace in 2008 and thereby resulted in a lower level of depreciation and amortization charges in 2008. We currently expect that the level of our amortization and depreciation charges in 2009 will continue to be impacted by the pace of NGN roll-out, which is influenced by the technical development in the telecommunications industry, the condition of our property and equipment and general economic conditions.

Compensation and employee benefits expenses decreased by Php1,318 million, or 13%, to Php9,093 million primarily due to a decrease in 2008 pension benefits as a result of an increase in average discount rates used in actuarial valuation of defined benefit pension plans and lower LTIP costs resulting from a decrease in our share price. For further discussion on our LTIP and pension benefits, please see *Note 23 Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18.

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

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

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

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

Table of Contents

Asset impairment increased by Php845 million to Php888 million mainly due to the net reversal of provision for doubtful accounts in 2007 and an increase in inventory obsolescence in 2008.
Taxes and licenses decreased by Php108 million, or 12%, to Php769 million as a result of higher business-related taxes paid in 2007.
Communication, training and travel expenses increased by Php142 million, or 30%, to Php608 million due to the increase in subscriber-related mailing, courier and delivery charges, and local travel, partially offset by a net decrease in foreign and local training expenses.
Insurance and security services increased by Php48 million, or 11%, to Php487 million primarily due to higher security expense, insurance and bond premiums.
Cost of sales increased by Php56 million, or 19%, to Php356 million due to higher computer-bundled sales in relation to our DSL promotion and *WeRoam* subscriptions.
Provisions decreased by Php665 million, or 100%, to Php1 million primarily due to lower provisions for assessments in 2008. Please see *Note 25 Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 18 for further details.
Other expenses increased by Php284 million, or 78%, to Php646 million due to higher various business and operational-related expenses.

Other Income (Expenses)

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

	2008	2007	Change Amount	Change %
	(in millions)			
Other Income (Expenses)				
Gains (losses) on derivative transactions net	Php 3,444	Php (3,335)	Php 6,779	203
Interest income	448	296	152	51
Financing costs	(3,903)	(4,657)	754	16
Foreign exchange (losses) gains net	(4,513)	5,479	(9,992)	(182)
Others	1,351	2,153	(802)	(37)
	Php (3,173)	Php (64)	Php 3,109	4,858

Our fixed line business segment generated other expenses of Php3,173 million in 2008, a change of Php3,109 million from other income of Php64 million in 2007. This change was primarily due to a net foreign exchange loss of Php4,513 million on account of a loss on revaluation of net foreign currency-denominated liabilities owing to the depreciation of the Philippine peso in from Php41.411 as at December 31, 2007 to Php47.647 as at December 31, 2008 compared to a net foreign exchange gain of Php5,479 million in 2007 partially offset by a gain on derivative transactions of Php3,444 million in 2008 relating to the gain in the mark-to-market valuation of various financial instruments compared with a loss on derivative transactions of Php3,335 million in 2007 and a decrease in financing costs due to a lower debt level of PLDT.

Provision for (Benefit from) Income Tax

Provision for income tax decreased by Php310 million, or 9%, to Php3,048 million in 2008 from Php3,358 million in 2007 primarily due to lower taxable income as a result of the utilization of a prior year net operating loss carryover.

Net Income

In 2008, our fixed line business segment contributed a net income of Php7,732 million, an increase of Php213 million, or 3%, as compared to Php7,519 million in 2007 mainly as a result of an increase in service revenues by Php715 million, lower fixed line-related expenses, and lower provision for income tax.

67

Table of Contents

Information and Communications Technology

Revenues

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

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

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

	2008	%	2007	%	Increase Amount	%
			(in millions)			
Service Revenues:						
Knowledge processing solutions	Php 5,272	48	Php 5,261	51	Php 11	
Customer interaction solutions	3,402	31	3,262	32	140	4
Internet and online gaming	976	9	937	9	39	4
*Vitro*ä data center	767	7	595	6	172	29
	10,417	95	10,055	98	362	4
Non-Service Revenues:						
Point-product-sales	566	5	267	2	299	112
Total ICT Revenues	Php 10,983	100	Php 10,322	100	Php 661	6

Service Revenues

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

Knowledge Processing Solutions

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

Customer Interaction Solutions

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

Internet and Online Gaming

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

Table of Contents

Data Center

ePLDT operates an internet data center under the brand name *Vitro*ä which provides co-location or rental services, server hosting, hardware and software maintenance services, website development and maintenance services, webcasting and webhosting, shared applications, data disaster recovery and business continuity services, intrusion detection, and security services such as firewalls and managed firewalls.

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

Non-service Revenues

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

Expenses

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

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

						Increase (Decrease)		
		2008	%		2007	%		Amount	%
				(in millions)				
ICT Services:								
Compensation and employee benefits(1)	Php	6,131	46	Php	5,455	50	Php	676	12
Asset impairment		2,286	17		711	6		1,575	222
Depreciation and amortization		833	6		934	8		(101)	(11)
Professional and other contracted services		747	6		1,129	10		(382)	(34)
Rent		665	5		620	6		45	7
Cost of sales		660	5		381	3		279	73
Repairs and maintenance		573	4		504	5		69	14
Communication, training and travel		573	4		523	5		50	10
Amortization of intangible assets		244	2		232	2		12	5
Selling and promotions		203	2		194	2		9	5
Taxes and licenses		98	1		94	1		4	4
Insurance and security services		61			49			12	24
Other expenses		193	2		179	2		14	8
Total	Php	13,267	100	Php	11,005	100	Php	2,262	21

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

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

Asset impairment increased by Php1,575 million, or 222%, to Php2,286 million primarily due to ePLDT s provision for impairment on goodwill and other intangibles on account of its investment in SPi and Level Up! and the acquisition of shares from minority stockholders of Airborne Access and the acquisition of Digital Paradise. Please see *Note 11 Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 18 for a detailed discussion.

Depreciation and amortization charges decreased by Php101 million, or 11%, to Php833 million primarily due to a decrease in the depreciable asset base of our customer interaction solutions business due to lower capital expenditures in 2008 as compared with 2007.
Professional and other contracted services decreased by Php382 million, or 34%, to Php747 million primarily due to lower consultancy fees and subcontracted services incurred by the SPi Group related to its knowledge processing solutions businesses.
Rent expenses increased by Php45 million, or 7%, to Php665 million primarily due to higher office space rentals and leased circuits incurred by our customer interaction solutions business.
Cost of sales increased by Php279 million, or 73%, to Php660 million primarily due to higher sales of software licenses and hardware products.
Repairs and maintenance expenses increased by Php69 million, or 14%, to Php573 million primarily due to higher maintenance costs for new customer interaction solution facilities.
Communication, training and travel expenses increased by Php50 million, or 10%, to Php573 million primarily due to increased bandwidth and information system charges, combined with an increase in local and foreign travel costs incurred by our customer interaction solutions and knowledge processing solution businesses.
Amortization of intangible assets increased by Php12 million, or 5%, to Php244 million due to the revaluation of dollar denominated intangible assets in relation to the acquisition of Springfield by SPi in April 2007 owing to the depreciation of the Philippine peso from Php41.411 as at December 31, 2007 to Php47.647 as at December 31, 2008. Please see *Note 11 Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 18 for further discussion.
Selling and promotion expenses increased by Php9 million, or 5%, to Php203 million mainly due to the SPi Group s higher advertising and marketing expenses.
Taxes and licenses increased by Php4 million, or 4%, to Php98 million primarily due to higher business-related taxes.
Insurance and security services increased by Php12 million, or 24%, to Php61 million primarily due to higher premium costs and an increase in the value of assets insured.
Other expenses increased by Php14 million, or 8%, to Php193 million mainly due to higher business-related costs, such as office supplies.

Other Income (Expenses)

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

					Change	
	2008		2007		Amount	%
			(in millions)			
Other Income (Expenses)						
Foreign exchange gains (losses) net	Php	93	Php	(138)	Php 231	167
Interest income		22		21	1	5
(Loss) gains on derivative transactions net		(59)		138	(197)	(143)
Financing costs		(172)		(132)	(40)	(30)
Others		115		583	(468)	(80)
Total	Php	(1)	Php	472	Php (473)	(100)

Table of Contents

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

Benefit from Income Tax

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

Net Loss

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

2007 Compared to 2006

On a Consolidated Basis

Revenues

Our revenues for 2007 increased by Php11,196 million, or 9%, to Php138,704 million from Php127,508 million in 2006. This increase was primarily due to an increase in our service revenues primarily resulting from the continued growth of our wireless business and an increase in our ICT revenues largely due to the effects of the full-year consolidation of the financial results of SPi, CyMed and Level Up!, the acquisition of Springfield and the continued increase in our customer interaction solutions revenues, which was partially offset by a continued decrease in our fixed line revenues.

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

					Change	
	2007	**%**	**2006**	**%**	**Amount**	**%**
			(in millions)			
Wireless	Php 89,299	64	Php 80,405	63	Php 8,894	11
Fixed line	48,832	35	49,255	39	(423)	(1)
Information and communications technology	10,322	8	6,890	5	3,432	50
Inter-segment transactions	(9,749)	(7)	(9,042)	(7)	(707)	8
Total	Php 138,704	100	Php 127,508	100	Php 11,196	9

Expenses

Our expenses in 2007 increased by Php1,584 million, or 2%, to Php83,587 million from Php82,003 million in 2006. This increase was primarily due to an increase in compensation and employee benefits, professional and other contracted services, selling and promotions expense, and provisions partially offset by lower depreciation and amortization, and asset impairment. As a percentage of our total revenues, total expenses decreased to 60% in 2007 from 64% in 2006.

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

					Change	
	2007	**%**	**2006**	**%**	**Amount**	**%**
			(in millions)			
Wireless	Php 44,530	53	Php 42,821	52	Php 1,709	4
Fixed line	37,891	45	41,149	50	(3,258)	(8)

Information and communications technology		11,005	13		7,175	9		3,830	53
Inter-segment transactions		(9,839)	(11)		(9,142)	(11)		(697)	(8)
Total	Php	83,587	100	Php	82,003	100	Php	1,584	2

Table of Contents

Other Income (Expenses)

Other income increased by Php10,220 million, or 141%, to Php2,964 million in 2007 from other expense of Php7,256 million in 2006 primarily due to an increase in foreign exchange gains, primarily due to the effect of foreign exchange revaluation as a result of the appreciation of the Philippine peso against the U.S. dollar from Php49.045 as at December 31, 2006 to Php41.411 as at December 31, 2007, which was partially offset by a decrease in our other income primarily resulting from a recognition in 2006 in our fixed line business of a net reversal of provision for onerous contract related to the ATPA with AIL.

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

	2007	%	2006	%	Change Amount	%
			(in millions)			
Wireless	Php 2,577	87	Php (1,113)	15	Php 3,690	332
Fixed line	(64)	(2)	(5,979)	82	5,915	(99)
Information and communications technology	472	16	(64)	1	536	838
Inter-segment transactions	(21)	(1)	(100)	2	79	79
Total	Php 2,964	100	Php (7,256)	100	Php 10,220	141

Provision for Income Tax

Provision for income tax increased by Php13,139 million, or 232%, to Php18,807 million in 2007 compared with Php5,668 million in 2006 mainly due to a higher taxable income partly as a result of lower accelerated depreciation recognized in 2007, and the reversal in 2006 of a valuation allowance of deferred tax assets in relation to the likelihood that Piltel would be able to realize the future benefits on these assets in 2006.

Net Income

As a result, our net income in 2007 was Php39,274 million, an increase of Php6,693 million, or 21%, compared to Php32,581 million in 2006 mainly due to the increase in revenues and higher other income partially offset by higher provision for income tax. The following table shows the breakdown of our consolidated net income for the years ended December 31, 2007 and 2006 by business segment:

	2007	%	2006	%	Change Amount	%
			(in millions)			
Wireless	Php 31,780	81	Php 30,127	92	Php 1,653	5
Fixed line	7,519	19	2,766	9	4,753	172
Information and communications technology	(94)		(312)	(1)	218	(70)
Inter-segment transactions	69				69	100
Total	Php 39,274	100	Php 32,581	100	Php 6,693	21

On Business Segment Basis

Wireless

Revenues

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

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

	2007	%	2006	%	Increase Amount	%
			(in millions)			
Wireless Services:						
Service Revenues						
Cellular	Php 82,334	92	Php 75,617	94	Php 6,717	9
Wireless broadband, satellite and others	4,165	5	2,778	3	1,387	50
	86,499	97	78,395	97	8,104	10
Non-Service Revenues:						
Sale of cellular handsets and SIM-packs	2,800	3	2,010	3	790	39
Total Wireless Revenues	Php 89,299	100	Php 80,405	100	Php 8,894	11

Service Revenues

Our wireless service revenues increased by Php8,104 million, or 10%, to Php86,499 million in 2007 compared to Php78,395 million in 2006, mainly as a result of the continued growth in the cellular and wireless broadband subscriber base, an increase in inbound international traffic and inbound roaming revenues, partially offset by an increase in interconnection costs and the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar in 2007 on our dollar-linked revenues. As a percentage of our total wireless revenues, service revenues contributed 97% in each of years 2007 and 2006.

Cellular Service

Our cellular service revenues in 2007 amounted to Php82,334 million, an increase of Php6,717 million, or 9%, from Php75,617 million in 2006. This increase was primarily due to the continued growth of Smart s and Piltel s subscriber bases. Cellular service revenues accounted for 95% of our wireless service revenues in 2007 as compared to 96% in 2006.

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

	2007	2006	Increase Amount	%
		(in millions)		
Cellular service revenues	Php 82,334	Php 75,617	Php 6,717	9
By service type	*80,197*	*73,905*	*6,292*	*9*
Prepaid	74,284	68,846	5,438	8
Postpaid	5,913	5,059	854	17
By component	*80,197*	*73,905*	*6,292*	*9*
Voice	36,105	35,233	872	2
Data	44,092	38,672	5,420	14

Others[1]	*2,137*	*1,712*	*425*	*25*

(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.

Table of Contents

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

Revenues attributable to our cellular prepaid service amounted to Php74,284 million in 2007, an 8% increase over the Php68,846 million earned in 2006. Prepaid service revenues in each of years 2007 and 2006 accounted for 93% of voice and data revenues. Revenues attributable to Smart s postpaid service amounted to Php5,913 million in 2007, a 17% increase over the Php5,059 million earned in 2006, and accounted for 7% of voice and data revenues in each of years 2007 and 2006.

Voice Services

Cellular revenues from voice services, which include all voice traffic and voice VAS such as voice mail and international roaming, increased by Php872 million, or 2%, to Php36,105 million in 2007 from Php35,233 million in 2006 primarily due to an increase in domestic voice, international long distance and voice roaming revenues, and domestic and international inbound revenues partially offset by the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar in 2007 on our dollar-linked revenues. The increase in domestic and international outbound and inbound revenues may be attributed to increased traffic mainly on account of subscriber growth. Cellular voice services accounted for 44% of cellular service revenues in 2007 as compared to 47% in 2006.

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

Data Services

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

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

	2007	2006	Increase (Decrease) Amount	%
		(in millions)		
Text messaging				
Domestic	Php 39,430	Php 32,763	Php 6,667	20
Bucket-Priced	*20,141*	*11,054*	*9,087*	*82*
Standard	*19,289*	*21,709*	*(2,420)*	*(11)*
International	1,835	1,886	(51)	(3)
	41,265	34,649	6,616	19
Value-added services				
Standard[1]	1,802	2,809	(1,007)	(36)
Rich Media[2]	352	287	65	23
Pasa Load	594	854	(260)	(30)
	2,748	3,950	(1,202)	(30)
Financial services				
Smart Money	75	68	7	10
Mobile Banking	4	5	(1)	(20)
	79	73	6	8
Total	Php 44,092	Php 38,672	Php 5,420	14

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

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

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

Subscriber Base, ARPU and Churn Rates

In 2007, Smart and Piltel cellular subscribers totaled 30,041,030, an increase of 5,865,646, or 24%, over their combined cellular subscriber base of 24,175,384 in 2006. Prepaid subscribers accounted for 99% of our total subscriber base in 2007 and 2006. Our cellular prepaid subscriber base grew by 24% to 29,699,150 in 2007 from 23,856,821 in 2006, while our postpaid subscriber base increased by 7% to 341,880 in 2007 from 318,563 in 2006. Prepaid and postpaid subscribers reflected net subscriber activations of 5,842,329 and 23,317, respectively, in 2007.

Table of Contents

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

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

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

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

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

The average monthly churn rate for Smart s postpaid subscribers for 2007 was 1.3% compared to 1.2% in 2006. Smart s policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber s account is either 45 days overdue or the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is disconnected. Within this 44-day period, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

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

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2007	2006	Amount	%	2007	2006	Amount	%
Prepaid								
Smart	Php 312	Php 339	Php (27)	(8)	Php 254	Php 289	Php (35)	(12)
Piltel	221	226	(5)	(2)	184	194	(10)	(5)
Prepaid Blended[3]	285	308	(23)	(7)	233	263	(30)	(11)
Postpaid Smart	2,091	1,904	187	10	1,485	1,407	78	6
Prepaid and Postpaid Blended[4]	307	330	(23)	(7)	248	278	(30)	(11)

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

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

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

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

Prepaid service revenues consist mainly of charges for subscribers actual usage of their loads. Prepaid blended gross average monthly in 2007 was Php285, a decrease of 7%, compared to Php308 in 2006. This decrease was primarily due to a decline in the average outbound domestic and international voice revenue per subscriber as well as the average VAS and inbound revenue per subscriber in 2007 compared to 2006, which was partly offset by an increase in the average text messaging revenue per subscriber. On a net basis, prepaid blended average monthly ARPU in 2007 was Php233, a decrease of 11%, compared to Php263 in 2006.

Table of Contents

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

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

	Prepaid								Postpaid			
	Smart				Piltel				Smart			
	Gross(1)		Net(2)		Gross(1)		Net(2)		Gross(1)		Net(2)	
2007												
First Quarter	Php	323	Php	267	Php	228	Php	187	Php	2,045	Php	1,483
Second Quarter		324		265		233		198		2,141		1,526
Third Quarter		293		239		206		173		2,073		1,464
Fourth Quarter		307		244		216		177		2,105		1,467
2006												
First Quarter	Php	356	Php	294	Php	245	Php	207	Php	1,867	Php	1,386
Second Quarter		344		294		234		202		1,920		1,414
Third Quarter		323		280		213		184		1,891		1,403
Fourth Quarter		332		286		213		184		1,939		1,425

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

(2) *Net quarterly ARPU is calculated by dividing gross*

cellular service revenues for the quarter, net of (i) discounts, (ii) allocated content-provider costs; and (iii) interconnection income net of interconnection expense, by the average number of subscribers in the quarter.

Wireless Broadband, Satellite and Other Services

Our revenues from wireless broadband, satellite and other services consist mainly of rentals received for the lease of Mabuhay Satellite s transponders, wireless broadband service revenues from SBI, charges for ACeS Philippines services and service revenues from the mobile virtual network operations of PLDT Global s subsidiary. SBI offers a number of wireless broadband services and had 301,738 subscribers as at December 31, 2007.

Gross service revenues from these services for 2007 amounted to Php4,165 million, an increase of Php1,387 million, or 50%, from Php2,778 million in 2006. This increase was primarily due to the growth in our wireless broadband business resulting primarily from a continued growth in our wireless broadband subscriber base.

Non-service Revenues

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

Our wireless non-service revenues increased by Php790 million, or 39%, to Php2,800 million in 2007 as compared to Php2,010 million in 2006 primarily due to lower volumes of postpaid and prepaid handsets sold and lower average revenues per cellular handset and cellular SIM-pack, partly offset by a higher volume of cellular SIM-packs sold in 2007.

Expenses

Expenses associated with our wireless business in 2007 amounted to Php44,530 million, an increase of Php1,709 million, or 4%, from Php42,821 million in 2006. A significant portion of this increase was attributable to higher depreciation and amortization, selling and promotions expenses, rent, and professional and other contracted services, partially offset by lower asset impairment expense, compensation and employee benefits and cost of sales. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 50% and 53% in 2007 and 2006, respectively.

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

Table of Contents

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

		2007	%		2006	%	Increase (Decrease)		
							Amount		%
				(in millions)					
Wireless Services:									
Depreciation and amortization	Php	12,202	27	Php	10,752	25	Php	1,450	13
Rent		8,751	20		7,887	19		864	11
Compensation and employee benefits[(1)]		4,608	10		5,041	12		(433)	(9)
Cost of sales		4,446	10		4,888	11		(442)	(9)
Selling and promotions		3,803	9		3,012	7		791	26
Repairs and maintenance		3,634	8		3,646	9		(12)	
Professional and other contracted services		2,369	5		1,779	4		590	33
Taxes and licenses		1,348	3		1,018	2		330	32
Communication, training and travel		1,083	3		891	2		192	22
Insurance and security services		783	2		797	2		(14)	(2)
Asset Impairment		563	1		2,220	5		(1,657)	(75)
Amortization of intangible assets		158			312	1		(154)	(49)
Other expenses		782	2		578	1		204	35
Total	Php	44,530	100	Php	42,821	100	Php	1,709	4

(1) *Includes salaries and employee benefits, incentive plan, pension and manpower rightsizing program, or MRP, costs.*

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

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

Compensation and employee benefits expenses decreased by Php433 million, or 9%, to Php4,608 million primarily due to lower accrued LTIP costs as a result of the early vesting of the LTIP in 2006 partly offset by higher accrued bonuses and employees basic pay increase of Smart. Smart and subsidiaries employee headcount increased by 57 to 5,363 in 2007 as compared to 5,306 in 2006. For further discussion on our LTIP, please see *Note 23 Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18.

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

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

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

Professional and other contracted services increased by Php590 million, or 33%, to Php2,369 million primarily due to higher expenses for consultancy, contracted and technical services, market research and advisory fees in respect of investment evaluations in our cellular business.

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

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

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

Asset impairment decreased by Php1,657 million, or 75%, to Php563 million due to the asset impairment charge recognized in 2006 in relation to the reduction in value of Mabuhay Satellite s Agila 2 satellite due to its difficulty in generating cash flows, given that the satellite was nearing its end-of-life (see *Note 8 Property, Plant and Equipment* to the accompanying audited consolidated financial statements in Item 18), and other events affecting its business and lower level of impairment charge for subscriber accounts receivables.

Amortization of intangible assets decreased by Php154 million, or 49%, to Php158 million mainly due to the full amortization of intangible assets relating to technology application and customer list arising from the acquisition of Wolfpac and SBI in November 2006 and August 2007, respectively.

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

Other Income (Expenses)

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

					Increase (Decrease)		
	2007		2006		Amount		%
			(in millions)				
Other Income (Expenses)							
Foreign exchange gains (losses) net	Php	2,649	Php	1,722	Php	927	54
Interest income		1,186		1,197		(11)	(1)
Gains (losses) on derivative transactions net		278		39		239	613
Financing costs		(2,299)		(4,658)		2,359	(51)
Others		763		587		176	30
Total	Php	2,577	Php	(1,113)	Php	3,690	332

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

Provision for Income Tax

Provision for income tax increased by Php9,222 million, or 145%, to Php15,566 million in 2007 from Php6,344 million in 2006. In 2007, the effective tax rate for our wireless business was 33% as compared to 17% in 2006 mainly due to the recognition of deferred tax assets of Piltel in 2006 and higher taxable income in 2007.

Net Income

Our wireless business segment recorded a net income of Php31,780 million in 2007, an increase of Php1,653 million, or 5%, over Php30,127 million registered in 2006 on account of higher cellular revenues complemented by lower expenses, partially offset by a higher provision for income tax.

Fixed Line

Revenues

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

79

Table of Contents

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

	2007	%	2006[1]	%	Increase (Decrease) Amount	%
			(in millions)			
Fixed Line Services:						
Service Revenues						
Local exchange	Php 16,205	33	Php 16,965	35	Php (760)	(4)
International long distance	8,674	18	9,933	20	(1,259)	(13)
National long distance	6,338	13	6,921	14	(583)	(8)
Data and other network	15,921	33	13,725	28	2,196	16
Miscellaneous	1,413	3	1,632	3	(219)	(13)
	48,551	100	49,176	100	(625)	(1)
Non-Service Revenues:						
Sale of computers, cellular handsets and SIM-packs	281		79		202	256
Total Fixed Line Revenues	Php 48,832	100	Php 49,255	100	Php (423)	(1)

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

	2007	2006	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php 16,205	Php 16,965	Php (760)	(4)
Number of fixed line subscribers	1,724,702	1,776,647	(51,945)	(3)
Postpaid	1,479,647	1,450,331	29,316	2
Prepaid	245,055	326,316	(81,261)	(25)
Number of fixed line employees	8,080	8,711	(631)	(7)
Number of fixed line subscribers per employee	213	204	9	4

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

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

International Long Distance Service
The following table shows information about our international fixed line long distance service business for the years ended December 31, 2007 and 2006, respectively:

	2007	2006	Increase (Decrease) Amount	%
Total international long distance service revenues (in millions)	Php 8,674	Php 9,933	Php (1,259)	(13)
Inbound	7,127	8,378	(1,251)	(15)
Outbound	1,547	1,555	(8)	(1)
International call volumes (in million minutes, except call ratio)	2,280	2,177	103	5
Inbound	2,007	1,984	23	1
Outbound	273	193	80	41
Inbound-outbound call ratio	7.4:1	10.3:1		

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

Our revenues from inbound international long distance service decreased by Php1,251 million, or 15%, to Php7,127 million primarily due to the appreciation of the Philippine peso to the U.S. dollar and a decrease in the average termination rate per minute due to the change in call mix with more traffic terminating to cellular operators where the net revenue retained by us is lower. These decreasing effects were partially offset by a slight increase in inbound traffic volume by 23 million minutes to 2,007 million minutes in 2007. The appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php46.184 in 2007 from Php51.332 in 2006 contributed to the decrease in our inbound international long distance revenues in peso terms, since settlement charges for inbound calls are billed in U.S. dollars or in special drawing rights, an established method of settlement among international telecommunications carriers using values based on a basket of foreign currencies that are translated into pesos at the time of billing.

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

National Long Distance Service

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

			Decrease	
	2007	**2006**	**Amount**	**%**
Total national long distance service revenues (in millions)	Php 6,338	Php 6,921	Php (583)	(8)
National long distance call volumes (in million minutes)	2,183	2,251		