PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 20-F
May 14, 2010

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, 2009

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, 2009:

186,797,304 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share

441,631,062 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o 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

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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* to the accompanying 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 Php46.43 to US$1.00 on December 31, 2009. On May 12, 2010, the volume weighted average exchange rate quoted was Php45.09 to US$1.00.

In this report, each reference to:

3rd Brand means 3rd Brand Pte. Ltd., an 85%-owned subsidiary of SCH;

ACeS Philippines means ACeS Philippines Cellular Satellite Corporation, a wholly-owned subsidiary of PLDT;

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 SBI;

ARPU means average revenue per user;

BTS means base transceiver station;

BayanTrade means BayanTrade, Inc. (formerly BayanTrade Dotcom, Inc.), a 93.5%-owned subsidiary 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;

CMTS means cellular mobile telephone system;

CPCN means Certificate of Public Convenience and Necessity;

CURE means Connectivity Unlimited Resource Enterprise, a wholly-owned subsidiary of FHI;

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;

Digitel means Digital Telecommunications Philippines, Inc.;

DSL means digital subscriber line;

ePLDT means ePLDT, Inc., a wholly-owned subsidiary of PLDT;

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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., a wholly-owned subsidiary of Smart;

FPHC means First Philippine Holdings Corporation;

FPUC means First Philippine Utilities Corporation;

GAAP means generally accepted accounting principles;

Globe means Globe Telecom, Inc.;

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! (Philippines), 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 97.8%-owned subsidiary of PLDT;

Meralco means Manila Electric Company;

MPRI means Metro Pacific Resources, Inc.;

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;

PHC means PH Communications Holdings Corporation, a wholly-owned subsidiary of Smart;

Philcom means PLDT-Philcom, Inc. (formerly Philcom Corporation), a wholly-owned subsidiary of PLDT;

Philippine SEC means the Philippine Securities and Exchange Commission;

Piltel means Pilipino Telephone Corporation, a 99.5%-owned subsidiary of Smart;

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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 SCH;
SHI means Smarthub, Inc., a wholly-owned subsidiary of Smart;
SIM means subscriber identification module;
Smart means Smart Communications, Inc., a wholly-owned subsidiary of PLDT;
SMHC means Smart Money Holdings Corporation, a wholly-owned subsidiary of Smart;
SMI means Smart Money, Inc., a wholly-owned subsidiary of SMHC;
SMS means short messaging service;
SNMI means Smart-NTT Multimedia, Inc., a wholly-owned subsidiary of PLDT;
SPi means SPi Technologies, Inc., a wholly-owned subsidiary of ePLDT;
SPi Group means SPi and its subsidiaries;
Springfield means Springfield Service Corp., a wholly-owned subsidiary of SPi;
SRC means Securities and Regulation Code;
SubicTel means PLDT Subic Telecom, Inc., a wholly-owned subsidiary of PLDT;
TSI means Telecoms Solutions, Inc., a wholly-owned subsidiary of SMHC;
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.

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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.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as at December 31, 2009 and 2008 and for the three years ended December 31, 2009, 2008 and 2007, included in this annual report on Form 20-F have been prepared in conformity with 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 Financial 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 year ended December 31, 2005 were prepared in conformity with U.S. GAAP.

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 consolidated financial information below as at December 31, 2009 and 2008 and for the three years ended December 31, 2009, 2008 and 2007, 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, 2009, 2008 and 2007 have been prepared and presented in conformity with IFRS and our consolidated financial statements for the year ended December 31, 2006, which were originally prepared in accordance with U.S. GAAP, have been restated in accordance with IFRS for comparative purposes only.

The selected consolidated financial information below as at and for the year ended December 31, 2005 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 is not comparable with data for 2009, 2008, 2007 and 2006 and are presented separately.

Amounts in conformity with IFRS:

	2009[1]	2009	2008	2007	2006
	(in millions, except earnings per common share amounts, weighted average number of common shares, ratio of earnings to fixed charges and dividends declared per common share amounts)				
Statements of Operating Data:					
Revenues	US$ 3,188	Php 147,993	Php 145,837	Php 138,704	Php 127,508
Service revenues	3,137	145,647	142,873	135,478	124,988
Non-service revenues	51	2,346	2,964	3,226	2,520
Expenses	1,941	90,111	85,786	83,587	82,003
Net income[2]	864	40,095	34,976	39,274	32,581
Earnings per common share for the year attributable to equity holders of PLDT					
Basic	4.53	210.38	179.96	205.84	173.10
Diluted	4.53	210.36	179.95	204.88	173.01
Balance Sheets Data:					
Cash and cash equivalents	825	38,319	33,684	17,447	16,870
Total assets	6,034	280,148	252,558	240,158	241,904
Total long-term debt net of current portion	1,854	86,066	58,899	53,372	63,769
Total debt[3]	2,127	98,729	73,911	60,640	80,154
Total liabilities[4]	3,899	181,023	145,589	127,813	139,052
Total equity[2]	2,135	99,125	106,969	112,345	102,853
Weighted average number of common shares for the year	186,916	186,916	188,163	188,656	184,456
Other Data:					
Depreciation and amortization	552	25,607	24,709	28,613	31,869
Ratio of earnings to fixed charges[5]	7.7x	7.7x	8.0x	8.3x	4.6x
Net cash provided by operating activities	1,602	74,386	78,302	77,418	69,211
Net cash used in investing activities	1,058	49,132	17,014	31,319	35,790
Net cash used in financing activities	437	20,293	45,464	44,819	45,900
Dividends declared to common shareholders	835	38,758	36,578	28,299	14,459
Dividends declared per common share	4.46	207.00	194.00	150.00	78.00

Amounts in conformity with U.S. GAAP:

(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)		**2005**
Statements of Operating Data:		
Revenues	Php	123,335
Service revenues		120,348
Non-service revenues		2,987
Expenses		74,821
Operating income per share		
Basic		263.81
Diluted		255.15
Net income		40,603
Earnings per common share		
Basic		217.84
Diluted		211.93
Balance Sheets Data:		
Cash and cash equivalents		30,059
Total assets		269,709
Total long-term debt net of current portion		93,516
Total debt[(3)]		112,313
Total liabilities[(4)]		176,980
Total stockholders equity		79,595
Other Data:		
Depreciation and amortization		27,855
Ratio of earnings to fixed charges[(5)]		5.9x
Net cash provided by operating activities		66,280
Net cash used in investing activities		13,080
Net cash used in financing activities		49,470
Dividends declared to common shareholders		9,624
Dividends declared per common share		56.00

(1) The PLDT Group presentation currency is the Philippine peso. For convenience, the peso financial information as at and for the year ended December 31, 2009, has been translated into U.S. dollars at the exchange

rate of Php46.43 to US$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2009. 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 the proportional share of non-controlling interests in consolidated net income and consolidated net assets, respectively. Under U.S. GAAP, net income and total equity does not include the proportional share of minority interests in net income and total equity and such minority interests are instead*

presented separately in the consolidated financial statements.

(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 2009, 2008, 2007 and 2006 under IFRS represent the sum of current and noncurrent liabilities. Total liabilities on a consolidated basis in 2005 under U.S. GAAP represent the difference between total assets and non-controlling interests in consolidated subsidiaries, preferred stock subject to mandatory redemption and equity attributable to equity holders of PLDT.*

(5) *For purposes of this ratio, Earnings consist*

of: (a) pre-tax income from continuing operations before adjustment for non-controlling interests 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 non-controlling interests 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.

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Capital Stock

The following table summarizes PLDT s capital stock issued as at December 31, 2009 and 2008:

	December 31, 2009	December 31, 2008
	(in millions)	
Serial Preferred Stock		
10% Cumulative Convertible Preferred Stock		
A to EE	Php 4,056.31	Php 4,054.81
Convertible Preferred Stock Subject to Mandatory Redemption		
Series V[(1)]		0.01
Series VI[(1)]		0.04
Cumulative Non-convertible Redeemable Preferred Stock		
Series IV	360.00	360.00
	Php 4,416.31	Php 4,414.86
Common Stock	Php 947.40	Php 947.28

(1) *Preferred stock subject to mandatory redemption (see Note 20 Interest-bearing Financial Liabilities Preferred Stock Subject to Mandatory Redemption to the accompanying 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, 2007, 2008 and 2009:

	Date			Amount	
Earnings	**Approved**	**Record**	**Payable**	**Per share**	**Total Declared** (in millions)

2007	August 7, 2007	August 24, 2007	September 24, 2007	Php	60	Php	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		11,250
					200		37,514
2009	August 4, 2009	August 20, 2009	September 22, 2009		77		14,384
2009	March 2, 2010	March 17, 2010	April 20, 2010		76		14,197
2009	March 2, 2010	March 17, 2010	April 20, 2010		65		12,142
				Php	218	Php	40,723

Our current policy is to declare and pay dividends taking into consideration the interests of our shareholders as well as our working capital, capital expenditures and debt servicing requirements. Also taken into consideration are our ability to meet loan covenant requirements in the declaration and payment of dividends as discussed in *Note 19 Equity* and *Note 20 Interest-bearing Financial Liabilities* to the accompanying 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 19 Equity* to the accompanying 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, Philippines 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.

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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	1.54
2007	150.00	3.26
2008	194.00	4.47
Regular Dividend April 21, 2008	68.00	1.62
Regular Dividend September 22, 2008	70.00	1.51
Special Dividend April 21, 2008	56.00	1.34
2009	207.00	4.30
Regular Dividend April 21, 2009	70.00	1.45
Regular Dividend September 22, 2009	77.00	1.62
Special Dividend April 21, 2009	60.00	1.24
2010	141.00	3.06
Regular Dividend April 20, 2010	76.00	1.71
Special Dividend April 20, 2010	65.00	1.46

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, or BAP, and BSP, the central bank of the Philippines. All members of the BAP 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)
2005	Php 53.06	Php 55.01	Php 53.06	Php 56.32
2006	49.05	51.17	49.05	53.59
2007	41.41	45.88	41.14	49.16
2008	47.65	44.71	40.36	49.98
2009	46.43	47.82	45.95	49.06
2010 (through May 12, 2010)	45.09	45.63	44.18	46.74

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.*

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	Period End		Month Average(1)		High(2)		Low(3)	
2009								
November	Php	47.13	Php	47.01	Php	46.52	Php	47.69
December		46.43		46.38		45.95		46.99
2010								
January		46.65		46.04		45.54		46.74
February		46.16		46.29		45.97		46.61
March		45.29		45.71		45.22		46.10
April		44.51		44.59		44.18		45.04
May (through May 12, 2010)		45.09		45.11		44.54		45.72

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.*

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, 2009 of Php46.43 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 May 12, 2010, the exchange rate quoted through the Philippine Dealing System was Php45.09 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

In 1993, the Philippine government liberalized the Philippine telecommunications industry and opened the Philippine telecommunications market to new entrants. Including the PLDT Group, there are nine major local exchange carriers, or LECs, 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 segment. 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 revenue market share and to attract new subscribers. Our principal cellular competitors, Globe Telecom, Inc., or Globe, and Digital Telecommunications Philippines, Inc., or Digitel, with its *Sun Cellular* brand, have introduced aggressive marketing campaigns and promotions, such as unlimited voice offers. 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 Buddy* and *Talk N Text* prepaid subscribers had the option to avail themselves of unlimited on-network (Smart-to-Smart) voice calls or unlimited on-network (Smart-to-Smart) text messages at a fixed rate.

There can be no assurance that incurring additional marketing expenses for these promotions and responding to rate pressures and the potential loss of customers or the increase in capital expenditures required for our continued capacity expansion necessary to accommodate expected continued increases in call and text volumes as a result of unlimited voice/text offers 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 about 83%, counting multiple SIM card ownership. The growth of the cellular communications market depends on many factors beyond our control, including the continued introduction of new and enhanced cellular devices, the price levels of cellular handsets, consumer preferences and amount of disposable income of existing and potential subscribers. Any economic, technological or other developments resulting in a reduction in demand for cellular services may harm our business.

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

The telecommunications sector has been characterized recently by rapid technological changes. There can be no assurance that these developments will not result in competition from providers of new services or the need to make substantial capital expenditures to upgrade our facilities. Furthermore, the NTC has issued to Smart and our competitors licenses covering 3G cellular services, and we have made significant investments in the roll out of these services. We are also continuing to upgrade our fixed line network 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 expenses, our capital expenditures and a portion of our expenses are denominated in U.S. dollars and other foreign currencies, while a significant portion of our revenues is denominated in Philippine pesos. As at December 31, 2009, 46% of our total consolidated indebtedness was foreign currency-denominated of which approximately 28% 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, while the Philippine peso appreciated against the U.S. dollar to Php46.43 as at December 31, 2009 from Php47.65 as at December 31, 2008, the Philippine peso depreciated against the U.S. dollar to Php47.65 as at December 31, 2008 from Php41.41 as at December 31, 2007, as a result of which, we recognized foreign exchange losses of Php6,170 million in 2008. 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.

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On the other hand, approximately 34% of PLDT Group s consolidated service revenues are either denominated in U.S. dollars and/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 Php52.02 on May 8, 2003 to a low of Php56.44 on October 14, 2004. While the peso appreciated in 2005, 2006 and 2007, it depreciated in 2008 to a low of Php49.98 and closed at Php47.65 as at December 31, 2008. In 2009, the peso again appreciated to a high of Php45.95 and closed at Php46.43 as at December 31, 2009. There can be no assurance that the peso will not depreciate and be subjected to significant fluctuations going forward due to a range of factors, including:

- political and economic developments affecting the Philippines, including the level of remittances from overseas Filipino workers;
- 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; and
- changes in the value of the U.S. dollar relative to the Philippine peso resulting from either 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, among others.

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 services will continue to decline in the future primarily due 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. Although revenues from data and other services have grown significantly in recent years compensating for declines in our traditional fixed line businesses, 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. There can be no assurance 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, as well as the ability to execute the identified strategies in order to generate fair returns on the investment; and
- our ability to successfully integrate the acquired company or business with our existing businesses.

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

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

As at December 31, 2009, we had consolidated total indebtedness of Php98,729 million (US$2,127 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 1.0x. Our existing debt instruments contain covenants which, among other things, require PLDT to maintain certain financial ratios, and other financial tests, 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, 2009, approximately 46% 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 maturities of some or all of our indebtedness. The terms of some of our debt instruments have no minimum amount for cross-default.

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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 maturities 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 over 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 operating expenses and as a result, 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 priority claims over 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 with respect to loans we have made to subsidiaries. If we are recognized as a creditor of a subsidiary, our claim will still be subordinated to any indebtedness secured by assets of the subsidiary and any indebtedness of the subsidiary otherwise deemed senior to the indebtedness we hold.

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

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

Our projects under development and the continued maintenance and improvement of our networks and services, including Smart s projects, networks and services, require substantial ongoing capital investment. Our consolidated capital expenditures in 2009 and 2008 totaled Php28,069 million and Php25,203 million, respectively. Our 2010 budget for consolidated capital expenditures is approximately Php28.6 billion, of which approximately Php10.8 billion is budgeted to be spent by PLDT and approximately Php16.4 billion 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 resulting, among other things, from Smart s promotions of unlimited calling plans that are also offered by our competitors.

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.

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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% in PLDT s outstanding common stock as at April 12, 2010. This is the largest block of PLDT s common stock that is directly or indirectly under common ownership.

Pursuant to publicly available filings made with the PSE, as at April 12, 2010, NTT Communications and NTT DoCoMo together beneficially owned approximately 21% of PLDT s outstanding 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.

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Additionally, pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment 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 Stock Purchase and Strategic Investment 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, under 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, 2009, Php6,768 million in principal amount of PLDT s indebtedness is directly subject to a redemption upon any change in the major shareholding of PLDT or to an offer to purchase requirement. In such event, if PLDT fails to complete an offer to purchase the affected debts, all of its debt could become immediately due and payable as a result of various cross-default and acceleration provisions.

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

In order to diversify the ownership base of public utilities, the Philippine Public Telecommunications Policy Act, 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 telecommunications 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.

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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 Php0.05 tax on text messaging charges. In addition, there is a pending bill which seeks to impose on telecommunications companies a 20% tax on 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/or changes in rates, each of which may have negative implications for our revenues and profitability

The NTC may regulate the rates and manner in which we charge the customers of our business.

For example, on July 3, 2009, NTC issued Memorandum Circular No. 03-07-2009 promulgating an extension of expiration of prepaid loads from two months to various expiration periods ranging from from three days to 120 days. Smart has been implementing the new validity period of prepaid loads since July 19, 2009.

Moreover, on July 7, 2009, the NTC issued another Memorandum Circular No. 04-07-2009 further amending the Memorandum Circular No. 03-03-2005A (Rules and Regulation on Broadcast Messaging) prohibiting content and/or information providers from initiating push messages. The Memorandum Circular No. 04-07-2009 further provides that subscribers must be the party to take the initiative with the public telecommunications entities and/or content providers to initiate any service and requires that a notification be sent to subscribers to give subscribers an option whether to continue with the availed service.

In addition, on July 23, 2009 the NTC issued Memorandum Circular No. 05-07-2009 mandating cellular operators, including Smart, to bill subscribers on a maximum six-second pulse basis instead of the previous per minute basis. The NTC granted Smart the provisional authority to charge new rates for the CMTS service and also directed Smart to implement a six seconds per pulse billing scheme on December 5, 2009. Smart subsequently implemented the six seconds per pulse directive by billing on a six second per pulse basis, if subscribers entered additional dialing numbers as a prefix before the actual number. The NTC opposed Smart s implementation of the six seconds per pulse directive. As at the date of this annual report, the matter is pending before the Court of Appeals and is the subject of a temporary restraining order preventing the NTC from implementing its six second per pulse billing directive.

Furthermore, from time to time, the NTC issues consultative documents on the development of a competition policy framework for the information communications sector and related matters.

For example, on August 24, 2006, the NTC issued a 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 such consultative paper to the NTC.

In formulating 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 asymmetric regulations on SMP 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.

Furthermore, 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 on October 7, 2008 and became effective on October 23, 2008; and

(b) guidelines on the interconnection of LECs in local calling areas that eliminate interconnection access charges between LECs within a local calling area, which were issued on May 30, 2008 and became effective on June 17, 2008.

In addition, on April 14, 2009, the NTC released implementing guidelines on developing reference access offers, which are statements of the prices, terms and conditions under which a telecommunications carrier proposes to provide access to its network or facilities to another such carrier or value-added service provider.

There can be no assurance that the NTC will not impose changes to the current regulatory framework which may lead to increased competition or affect the rates we may charge for our services. 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;

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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, an independent registered public accounting firm must express an opinion on our internal control over financial reporting based on their audits. 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 a number of 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 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.

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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, floods, volcanic eruptions and earthquakes that may materially disrupt and adversely affect our business operations. The frequency and severity of the occurrence of natural catastrophes and challenges may be further exacerbated through effects of the ongoing global climate change. There can be no assurance that we are fully capable to deal with these situations and that the insurance coverage we maintain will fully compensate us for all the damages and economic losses resulting from these catastrophes.

Item 4. Information on the Company

Overview

We are the leading telecommunications service provider in the Philippines. Through our principal business segments wireless, fixed line, and information and communications technology we offer the largest and most diversified range of telecommunications services across the Philippines most extensive fiber optic backbone and wireless, fixed line and satellite networks.

PLDT is the leading fixed line service provider in the Philippines with over 60% of the total reported fixed line subscribers nationwide as at December 31, 2009. Smart is the leading cellular service provider in the country, with approximately 55% of total reported cellular subscribers nationwide as at December 31, 2009, including Piltel s cellular subscribers transferred to Smart on August 17, 2009. We have interests in the information and communications technology sectors, including the operation of our *Vitro*™ data center, customer interaction solutions and knowledge processing solutions business 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 Php452,049 million (US$9,981 million) as at March 31, 2010, representing one of the largest market capitalizations among Philippine-listed companies. For the year ended December 31, 2009, we had total revenues of Php147,993 million (US$3,188 million).

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

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.

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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 NTTC-UK, became PLDT s strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. 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 and together with NTT Communications beneficially owned approximately 21% of PLDT s outstanding common stock as at April 12, 2010. NTT Communications and NTT DoCoMo are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represents an attributable interest of approximately 6% of the then outstanding 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% in PLDT s outstanding common stock as at April 12, 2010. 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 permitting 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. Our subsidiaries, including Smart, also maintain their own franchises with a different range of services and periods of legal effectiveness for their licenses. 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.

Recent Developments

Transfer of Piltel s Equity Interest in Meralco

On March 1, 2010, Piltel, Metro Pacific Investments Corporation, or MPIC, and Beacon Electric Asset Holdings, Inc., or Beacon, entered into an Omnibus Agreement, or OA. Beacon, formerly known as Rightlight Holdings, Inc., is a newly organized special purpose company with the sole purpose of holding the respective shareholdings in Meralco of Piltel and MPIC. Piltel and MPIC are Philippine affiliates of First Pacific and both hold equity shares in Meralco, see *Note 10 Investments in Associates and Joint Ventures* to the accompanying consolidated financial statements for further discussion. Under the OA, Piltel and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon.

Investment in Beacon

Prior to the transactions contemplated under the OA, MPIC beneficially owned the entire outstanding capital stock of Beacon consisting of 25,000 common shares of Beacon, with a total par value of Php25,000.

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On April 29, 2010, the Philippine SEC approved Beacon s application to increase its authorized capital stock to Php5 billion consisting of 3 billion common shares with par value of Php1 per share and 2 billion preferred shares with par value of Php1 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon, have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preference shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon s bank creditors.

Under the OA, each of Piltel and MPIC has agreed to subscribe to 1,156.5 million common shares of Beacon, for a subscription price of Php20 per share or a total of Php23,130 million. Piltel and MPIC have also agreed that their resulting equity after such subscriptions and Piltel s purchase from MPIC of 12,500 Beacon common shares will be 50% each of the outstanding common shares of Beacon.

MPIC has additionally agreed to subscribe to 801 million shares of Beacon s preferred stock for a subscription price of Php10 per share or a total of Php8,010 million.

The completion of the subscription of MPIC to 1,156.5 million common shares and 801 million preferred shares of Beacon was subject to the following conditions, all of which have been satisfied: (a) approval of MPIC s Board of Directors, which was obtained on March 1, 2010; (b) approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (c) full payment of the subscription price, which was made on March 30, 2010. Consequently, on March 30, 2010, MPIC completed its subscription of 1,156.5 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 163.6 million Meralco shares at a price of Php150 per share, or Php24,540 million in the aggregate; and (2) Php6,600 million in cash, as further described below in Transfer of Meralco Shares to Beacon .

The completion of the subscription of Piltel to 1,156.5 million common shares of Beacon was subject to the following conditions, all of which have been satisfied: (a) Piltel Board of Directors approval, which was obtained on March 1, 2010; (b) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; (c) the approval of the shareholders of Piltel, which was obtained on May 7, 2010; and (d) the full payment of the subscription price, which was made on May 12, 2010.

Although Piltel has secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of Piltel s capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, Piltel recognized as an asset the deposit for future stock subscription of Php23,130 million for its subscription to 1,156.5 million common shares of Beacon.

The subscription price of Piltel s and MPIC s subscription to Beacon shares was offset in full (in the case of Piltel) and in part (in the case of MPIC) against the consideration for the transfer of Meralco shares held by Piltel and MPIC as described below in Transfer of Meralco Shares to Beacon section below. In addition, MPIC settled its remaining balance in cash.

Transfer of Meralco Shares to Beacon

Concurrently with the subscription to the Beacon shares described above, Beacon agreed to purchase 154.2 million and 163.6 million Meralco shares, or the Transferred Shares, from Piltel and MPIC, respectively, for a consideration of Php150 per share or a total of Php23,130 million for the Piltel Meralco shares and Php24,540 million for the MPIC Meralco shares.

The completion of the sale of the MPIC Meralco shares to Beacon was subject to the following conditions, all of which have been satisfied: (a) approval of MPIC s Board of Directors, which was obtained on March 1, 2010; (b) approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (d) release of the pledge over the MPIC Meralco shares, which was completed on March 30, 2010. Consequently, on March 30, 2010, MPIC transferred 163.6 million Meralco shares to Beacon at a price of Php150 per share for a total consideration of Php24,540 million.

The completion of the sale of the Piltel Meralco shares to Beacon was subject to the following conditions, all of which have been satisfied: (a) Piltel Board of Directors approval, which was obtained on March 1, 2010; (b) the approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (d) the approval of the shareholders of Piltel, which was obtained on May 7, 2010. Consequently, on May 12, 2010, Piltel transferred 154.2 million Meralco shares to Beacon at a price of Php150 per share for a total consideration of Php23,130 million. The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the PSE.

Although Piltel has secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of Piltel s capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, PLDT recognized a Php15,084 million investment in Beacon representing the proportionate carrying cost of the 154.2 million Meralco shares transferred to Beacon under the OA.

Subject to rights over certain property dividends that may be declared or distributed in respect of the approximately 317.8 million Transferred Shares, which will be assigned to FPHC if the Call Option (as discussed below), is exercised, the rights, title and interest that will be transferred to Beacon by MPIC and Piltel in respect of the approximately 317.8 million Transferred Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Transferred Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of all of the foregoing.

Piltel may, at some future time and under such terms and conditions as may be agreed by Piltel and Beacon, transfer to Beacon its remaining 68.8 million Meralco common shares.

Call Option

Under the OA, MPIC has assigned its right to acquire the call option, or the Call Option, over 74.7 million common shares of Meralco currently held by FPHC, or the Option Shares, to Beacon. As a result of this assignment, Beacon and FPHC have executed an Option Agreement dated March 1, 2010 pursuant to which FPHC granted the Call Option over the Option Shares to Beacon.

The Call Option is exercisable at the option of Beacon during the period from March 15, 2010 until midnight of May 15, 2010. The exercise price for the Option Shares is Php300 per share or an aggregate exercise price of Php22,410 million. Beacon exercised the Call Option on March 30, 2010 and FPHC transferred the 74.7 million shares of Meralco common stock to Beacon in consideration of the payment by Beacon of Php22,410 million in cash on March 30, 2010.

Subject to rights over certain property dividends that may be declared or payable in respect of the 74.7 million shares of Meralco common stock, which are retained by FPHC following the Call Option exercise, the rights, title and interest transferred to Beacon by FPHC in respect of the Option Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Option Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights hereafter accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of any sale or disposition of any of the foregoing.

Property Dividends

With respect to the approximately 317.8 million Transferred Shares, the remaining 68.8 million Meralco common shares held by Piltel and the 74.7 million Option Shares transferred by FPHC to Beacon pursuant to the Call Option, FPHC has the benefit of being assigned, or retaining in the case of the Option Shares, certain property dividends that may be declared on such shares.

Governance Arrangements

Beacon, Piltel and MPIC have also agreed on certain corporate governance matters, including Board composition, election of officers, shareholders action, representation to the Meralco Board, nomination of the Meralco Board Committees, and nomination of Meralco officers. The corporate governance agreements and Beacon equity structure will result in a jointly-controlled entity.

On March 30, 2010, Beacon also entered into an Php18 billion ten-year corporate notes facility with First Metro Investment Corporation and PNB Capital and Investment Corporation as joint lead arrangers and various local financial institutions as noteholders. The proceeds of the notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option. As at March 31, 2010, the amount drawn under this facility amounted to Php16,200 million (Php16,014 million, net of debt issuance cost of Php186 million); the remaining undrawn balance amounted to Php1,800 million.

As at March 31, 2010, Beacon held 392.5 million Meralco common shares representing approximately 34.8% equity interest in Meralco. The market value of Beacon s investment in Meralco as at March 31, 2010, based on a quoted price of Php176 per share amounted to Php69,081 million.

Corporate Merger of Vocativ, Parlance and Ventus

On June 26, 2009, ePLDT s Board of Directors approved the plan for merger of its wholly-owned subsidiaries, Vocativ and Parlance, as the absorbed companies, and Ventus, as the surviving entity. The Articles and Plan of Merger was approved by the Philippine SEC on April 8, 2010.

Organization

PLDT Group includes the following significant subsidiaries as at March 31, 2010:

			2009		2008	
	Place of		**Percentage of Ownership**			
Name of Subsidiary	**Incorporation**	**Principal Business Activity**	**Direct**	**Indirect**	Direct	Indirect
Wireless						
Smart:	Philippines	Cellular mobile services	**100.0**		100.0	
Smart Broadband, Inc., or SBI, and Subsidiaries, or SBI Group	Philippines	Internet broadband distribution		**100.0**		100.0
Primeworld Digital System, Inc., or PDSI	Philippines	Cellular and internet broadband distribution services		**100.0**		
I-Contacts Corporation, or I-Contacts	Philippines	Customer interaction solutions		**100.0**		100.0
Wolfpac Mobile, Inc., or Wolfpac	Philippines	Mobile applications development and services		**100.0**		100.0
Wireless Card, Inc., or WCI	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards		**100.0**		100.0
Smarthub, Inc., or SHI	Philippines	Development and sale of software, maintenance and support services		**100.0**		100.0
Smart Money Holdings Corporation, or SMHC:	Cayman Islands	Investment company		**100.0**		100.0
Smart Money, Inc., or SMI	Cayman Islands	Mobile commerce solutions marketing		**100.0**		100.0
Telecoms Solutions, Inc., or TSI	Mauritius	Mobile commerce platforms		**100.0**		100.0

Far East Capital Limited and Subsidiary	Cayman Islands	Cost effective offshore financing and risk management activities for Smart		**100.0**		100.0
PH Communications Holdings Corporation, or PHC	Philippines	Investment company		**100.0**		100.0
Francom Holdings, Inc., or FHI:	Philippines	Investment company		**100.0**		100.0
Connectivity Unlimited Resource Enterprise, Inc., or CURE	Philippines	Cellular mobile services		**100.0**		100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Mobile applications development and services		**100.0**		
Pilipino Telephone Corporation, or Piltel,* and Subsidiaries, or Piltel Group	Philippines	Investment company		**99.5**		92.5
SmartConnect Holdings Pte. Ltd., or SCH:	Singapore	Investment company		**100.0**		100.0
SmartConnect Global Pte. Ltd., or SGP	Singapore	International trade of satellites and Global System for Mobile Communication, or GSM, enabled global telecommunications		**100.0**		100.0
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services		**85.0**		85.0
Blue Ocean Wireless, or BOW	Isle of Man	Delivery of GSM communication capability for the maritime sector		**51.0**		28.3
Telesat, Inc., or Telesat	Philippines	Satellite communications services	**100.0**		100.0	
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	**88.5**	**11.5**	88.5	11.5
Mabuhay Satellite Corporation, or Mabuhay Satellite	Philippines	Satellite communications services	**67.0**		67.0	

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2009 Percentage of Ownership Direct	2009 Percentage of Ownership Indirect	2008 Percentage of Ownership Direct	2008 Percentage of Ownership Indirect
Fixed Line						
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	**100.0**		100.0	
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	**100.0**		100.0	
PLDT Global Corporation, or PLDT Global, and Subsidiaries, or PLDT Global Group	British Virgin Islands	Telecommunications services	**100.0**		100.0	
Smart-NTT Multimedia, Inc., or SNMI	Philippines	Data and network services	**100.0**		100.0	
PLDT-Philcom, Inc. (formerly known as Philcom Corporation), or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	**100.0**			
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	**97.8**		97.5	
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related value-added services	**75.0**		75.0	
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**		100.0	
SPi Technologies, Inc., or SPi, and Subsidiaries, or SPi Group	Philippines	Knowledge processing solutions		**100.0**		100.0
ePLDT Ventus, Inc., or Ventus	Philippines	Customer interaction solutions		**100.0**		100.0
Vocativ Systems, Inc., or Vocativ	Philippines	Customer interaction solutions		**100.0**		100.0
Parlance Systems, Inc., or Parlance	Philippines	Customer interaction solutions		**100.0**		100.0
Infocom Technologies, Inc., or Infocom	Philippines	Internet access services		**99.6**		99.6
	Philippines			**93.5**		10.8

BayanTrade, Inc. (formerly BayanTrade Dotcom, Inc.), or BayanTrade, and Subsidiaries, or BayanTrade Group		Internet-based purchasing, IT consulting and professional services		
Digital Paradise Thailand, or DigiPar Thailand	Thailand	Internet access services	**87.5**	87.5
netGames, Inc., or netGames	Philippines	Publisher of online games	**80.0**	80.0
Digital Paradise, Inc., or Digital Paradise	Philippines	Internet access services	**75.0**	75.0
Level Up! (Philippines), Inc., or Level Up!	Philippines	Publisher of online games	**60.0**	60.0

* *On August 17, 2009, Smart acquired the cellular mobile telephone business of Piltel.*

On April 12, 2007, SPi acquired a 100% equity interest in Springfield, a company engaged in the medical billing and revenue cycle management market in the United States. The financial results of Springfield have been included in our consolidated financial statements since April 2007.

On April 25, 2008, Smart acquired the entire issued and outstanding capital stock of PHC and FHI, which collectively own 100% equity interest of CURE for a total consideration of Php420 million. PHC and FHI own 97% and 3%, respectively, of CURE.

On January 3, 2009, PLDT, Premier Global Resources and Philippine Global Communications, Inc., or PGCI, executed a Share Assignment Agreement wherein PGCI sold to PLDT the rights, title and interest in all of the outstanding common shares of Philcom s common stock for a cash consideration of Php75 million.

ePLDT s equity interest in BayanTrade increased from 10.8% as at December 31, 2008 to 93.5% as at December 31, 2009 as a result of 34.3% equity interest acquired by ePLDT under the rights offering that was completed on January 20, 2009 for a cash consideration of Php28 million and acquisition of an additional 48.4% equity interest on April 15, 2009 for cash consideration of Php39 million.

On March 12, 2009, FPHC, FPUC, and Lopez, Inc., (collectively, 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. The transaction was approved at the Annual Stockholder s Meeting of Piltel on June 30, 2009 and completed on July 14, 2009. Please see *Note 10 Investments in Associates and Joint Ventures* of the accompanying consolidated financial statements in Item 18 for further information on the acquisition of Meralco shares.

Smart s Board of Directors approved on June 19, 2009 a tender offer to acquire approximately 840 million shares from Piltel s non-controlling shareholders at Php8.50 per share payable entirely in cash on August 12, 2009. These shares represented approximately 7.2% of the outstanding common stock of Piltel at that time. The tender offer commenced on July 1, 2009 and ended on July 29, 2009, with approximately 93% of Piltel s non-controlling shares tendered, thereby increasing Smart s ownership to approximately 99.5% of the outstanding common stock of Piltel. The aggregate cost for the tender offer paid by Smart to non-controlling shareholders on August 12, 2009 amounted to Php6,618 million, from which Smart recognized an excess of acquisition cost over the carrying value of non-controlling interests acquired of Php5,479 million presented as part of capital in excess of par value account under Equity in our consolidated statements of financial position.

On June 30, 2009, Piltel s stockholders approved the sale and transfer of Piltel s cellular mobile telephone business/assets to Smart through a series of transactions, which included: (a) the assignment of Piltel s *Talk N Text* trademark to Smart for a consideration of Php8,004 million; (b) the transfer of Piltel s existing *Talk N Text* subscriber base to Smart in consideration of the rate of Php73 per subscriber, which is equivalent to Smart s average acquisition cost per subscriber in 2008 for its *Smart Buddy* subscribers representing Php1,213 million in the aggregate; and (c) the sale of Piltel s GSM fixed assets to Smart at net book value. As a result, the cellular mobile telephone business has been consolidated under Smart in order to maximize revenue streams and eliminate any potential regulatory issues relating to the traffic between Piltel and Smart. The NTC approved the request for the sale and transfer of Piltel s subscribers to Smart submitted on July 8, 2009 and the transfer of Piltel s cellular mobile telephone business and assets to Smart was completed on August 17, 2009.

In July 2009, Smart (through its subsidiary, SCH) increased its shareholdings in BOW to approximately 1.2 million shares representing 51.0% of the total issued and outstanding shares of BOW from 381 thousand shares or 28.3%. The cost of the additional investment in BOW amounted to US$6 million, or Php301 million, for 782 thousand shares, or US$8 per share, of which US$4 million, or Php182 million, was paid in cash and US$2 million, or Php119 million, was offset against net payables by BOW to Smart.

On August 3, 2009, Piltel s Board of Directors approved a share buyback program of up to 61.5 million shares at a maximum price per share of Php8.50 to accommodate non-controlling shareholders who may not have had the opportunity to participate in the previous buyback programs and the tender offer conducted by Smart in July 2009 as described under *Sale/Transfer of Piltel s Cellular Mobile Phone Business/Assets to Smart and Smart s Tender Offer to Piltel s Non-Controlling Interest* in *Note 2 Summary of Significant Accounting Policies* of the accompanying consolidated financial statements in Item 18. As with the previous buyback programs, this buyback program will be conducted in the open market through the trading facilities of the PSE and is expected to continue until the number of shares authorized for buyback under the program has been fully repurchased, or until such time as Piltel s Board of Directors determines otherwise. Under this program, Piltel had already purchased 2.8 million shares at a cost of Php23 million as at December 31, 2009. As at December 31, 2009, cumulative shares repurchased under the share buyback program totaled 85.8 million at an aggregate cost of Php614 million. Shares repurchased under the share buyback program for the years ended December 31, 2009 and 2008 totaling to 41.2 million and 44.6 million treasury shares, respectively, with aggregate costs of Php305 million and Php308 million, respectively, reduced the amount of non-controlling interests for the same amount.

On August 31, 2009, SPi (through SPi-America, a wholly-owned U.S. subsidiary of SPi) signed a Stock Purchase Agreement with Laguna Medical, a California Corporation, and its various sellers, to purchase 80% of the issued and outstanding common shares of Laguna Medical for a cash consideration of US$6.6 million, or Php313 million. Simultaneous with the agreement to acquire the 80% equity interest of Laguna Medical, SPi signed a Put-Call Agreement with Laguna Medical LLC, a Delaware Corporation and parent company of Laguna Medical, in respect of the remaining 20% of the outstanding common stock of Laguna Medical held by Laguna Medical LLC. Under said Put-Call Agreement, commencing on July 1, 2011, Laguna Medical LLC granted SPi the exclusive right to purchase the remaining Laguna Medical shares (call right) while SPi granted Laguna Medical LLC the exclusive right to sell the remaining Laguna Medical shares (put right) to SPi. Based on our evaluation of the mandatory Put-Call option, SPi has present access to the economic benefits associated with the ownership interest in Laguna Medical, hence, control over the 20% interest has already been in the possession of SPi since August 31, 2009. As a result, the effective ownership interest of Laguna Medical acquired by SPi on August 31, 2009 was 100%. The acquisition cost for the remaining 20% of the outstanding common stock of Laguna Medical is equivalent to the base price of US$2 million plus the change in Laguna Medical EBITDA from the date of acquisition to April 30, 2011 multiplied by applicable performance factors specified in the agreement.

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In May and October 2009, Smart acquired an aggregate of 84 million shares, representing the total issued and outstanding capital stock of PDSI, for a total consideration of Php1,569 million. PDSI provides a suite of high-value IP-based products servicing corporate clients, such as wired and wireless leased line access with security and high availability option, managed services, VoIP and other VAS such as server co-location and data center services. The acquisition took place on two dates: (a) the first closing took place on May 14, 2009 and involved the acquisition of 34 million shares representing 40% of the issued and outstanding shares of PDSI for a consideration of Php632 million; and (b) the second closing took place on October 2, 2009 and involved the acquisition of the remaining 50 million shares representing 60% of the issued and outstanding shares of PDSI for a consideration of Php937 million.

On December 18, 2009, Smart acquired 120 thousand common shares, representing 100% of the outstanding share capital of Chikka, a mobile applications development and services company, for a total consideration of US$13.5 million, or Php629 million, of which US$12.1 million, or Php564 million, was paid in cash on December 18, 2009 and the balance of US$1.4 million, or Php65 million, will be settled on a date mutually acceptable to both Smart and Chikka, and on which all post-closing deliverables are ready to be delivered by Chikka to Smart.

See *Note 2 Summary of Significant Accounting Policies, Note 13 Business Combinations and Acquisition of Non-Controlling Interests* and *Note 14 Goodwill and Intangible Assets* to the accompanying 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 92% and 8% of our wireless service revenues, respectively, in 2009. 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 61%, 61% and 60% of our total revenues for the years ended December 31, 2009, 2008 and 2007, respectively. For the years ended December 31, 2009, 2008 and 2007, cellular service revenues accounted for 91%, 92% and 92%, respectively, of our total wireless revenues.

Our cellular service, which accounted for about 92% of our wireless service revenues for the year ended December 31, 2009, is provided through Smart (including Piltel s cellular business which was transferred to Smart on August 17, 2009) and CURE. As measured by subscriber base, Smart is the leading cellular service provider in the Philippines, with 41,328,641 subscribers as at December 31, 2009, including 79,571 subscribers of CURE and 17,050,713 *Talk N Text* subscribers transferred from Piltel to Smart and represents a market share of approximately 55%. In 2009, the combined number of Smart s and CURE s subscribers increased by 6,104,037, or 17%, to 41,328,641 mainly due to the increase in multiple SIM card ownership especially in the lower income segment of the Philippine wireless market, which, together with unlimited voice offers, resulted in a decrease in our average revenue per user, or ARPU, and partly due to the continuous introduction of innovative services. Cellular penetration in the Philippines reached approximately 83% as at December 31, 2009, which was more than 25 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 CURE s cellular subscriber gains were predominantly attributable to their respective prepaid services. Almost 99% of Smart s and all of CURE s cellular subscribers as at December 31, 2009 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.

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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. Although text messaging contributed significantly to Smart s and CURE s cellular data service volume growth in 2009, cellular data service revenues decreased by Php732 million, or 2%, to Php47,072 million in 2009 from Php47,804 million in 2008.

Smart s cellular network is the most extensive in the Philippines, covering substantially all of Metro Manila and most of the other major population centers in the Philippines. Its dual-band GSM network allows it to efficiently deploy high capacity 1800 MHz base transceiver 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 and currently upgrading our wireless broadband facilities. With 9,727 cellular/mobile broadband base stations as at the end of December 2009, Smart s cellular network covers approximately 99% of all towns and municipalities in the Philippines, accounting for approximately 99% of the population.

Fixed Line

We are the leading provider of fixed line telecommunications services throughout the country. Our fixed line business group offers local exchange, international long distance, national long distance, data and other network and miscellaneous services. We had 1,816,541 fixed line subscribers as at December 31, 2009, an increase by 34,185, or 2%, from the 1,782,356 fixed line subscribers as at December 31, 2008. Total revenues from our fixed line accounted for 32% of our total revenues for the years ended December 31, 2009 and 2008 and 33% in 2007. 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 strong 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 complemented by an extensive digital microwave backbone operated by Smart. These microwave networks complement the higher capacity fiber optic networks and are vital in delivering reliable services to remote areas. 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.

On February 25, 2010, PLDT completed another phase of its DFON expansion program with the recent activation of an additional 320 Gbps across six network loops nationwide to serve the rising demand for bandwidth as more customers increase their usage of broadband internet and multimedia services. This recent expansion project increased the aggregate operating capacity of PLDT s DFON to about 1.2 Terabits per second at a total cost of about Php600 million.

In 2009, PLDT has also embarked on a Php2.6 billion DFON network fortification program through establishment of loops within the loops to enhance network resiliency to protect its existing businesses and attract new businesses nationwide. As at May 13, 2010, PLDT has completed majority of the inland portion and expects to complete the whole project towards the beginning of the third quarter of 2010. See Infrastructure Fixed Line Network Infrastructure for further information on our fixed line infrastructure.

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, 2009, 2008 and 2007.

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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 over 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. The *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 over 44 million fixed line, cellular and broadband subscribers as at December 31, 2009, we have the leading market positions in each of the fixed line, cellular and broadband 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 total revenues in 2009. 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 business, and data center and other services. Fixed line revenues, which represented 32%, 32% and 33% of our consolidated revenues in 2009, 2008, and 2007, respectively, have been declining over the past years as a share of our total 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.

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 fixed line service provider 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.

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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. While as at December 31, 2009 our consolidated debt outstanding increased to Php98,729 million (approximately US$2,127 million) in connection with the financing of our acquisition of shares of Meralco and our increased capital expenditures, our consolidated ratio of debt to equity was 1.0x at December 31, 2009. 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 were able to declare dividend payouts of approximately 70% in 2007 and 100% in each of 2008 and 2009 of our earnings per share on an adjusted basis. We expect that our free cash flows will continue to 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 telecommunications as well as telco-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 and CURE to over 41 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 include:

(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.

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The following table summarizes key measures of Smart s and CURE s cellular business as at and for the years ended December 31, 2009, 2008 and 2007:

		2009		2008		2007
Systemwide cellular subscriber base		41,328,641		35,224,604		30,041,030
Smart		24,198,357		20,899,753		20,339,204
Prepaid		23,762,814		20,501,617		19,997,324
Postpaid		435,543		398,136		341,880
Talk N Text[1]		17,050,713		14,308,493		9,701,826
Red Mobile[2]		79,571		16,358		
Growth rate of cellular subscribers		17%		17%		24%
Smart		16%		3%		18%
Talk N Text[1]		19%		47%		39%
Red Mobile[2]		386%		100%		
Cellular revenues (in millions)	Php	88,410	Php	87,518	Php	82,334
Voice		38,850		37,275		36,105
Data		47,072		47,804		44,092
Others[3]		2,488		2,439		2,137
Percentage of cellular revenues to total wireless service revenues		92%		94%		95%
Percentage of cellular revenues to total service revenues		61%		61%		60%

(1) *The transfer of Piltel s cellular business to Smart was completed on August 17, 2009.*

(2) *The Red Mobile brand was launched in November 2008 by CURE.*

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

services.

Service Plans. Smart markets nationwide cellular communications services under the brand names *Smart Buddy, Talk N Text, Smart Gold* and *Smart Infinity,* while CURE offers *Red Mobile. Smart Buddy, Talk N Text* and *Red Mobile* are prepaid services while *Smart Gold* and *Smart Infinity* are postpaid services, which are all provided through Smart s digital network.

Smart has focused on segmenting the market by offering sector-specific, value-driven packages for its prepaid subscribers. These include new varieties of our top-up services 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 top-up services now include text message bundles available to all networks.

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.

We launch various promotions from time to time to stimulate usage and subscriber growth. In 2005, Smart launched a series of promotions to test the market demand for fixed rate or bucket plans for voice and text. On June 26, 2009, *Smartalk*, Smart s unlimited voice offering, was made available to all *Smart Buddy* and *Smart Gold* subscribers nationwide. The new service does not require any changes in SIM or cellular phone number and enables *Smart Buddy* and *Smart Gold* subscribers to make unlimited calls to the over 41 million mobile phone users on the Smart network. Buoyed by the widespread acceptance of the service, Smart launched a variant in October 2009, *Smartalk Plus*, which offers unlimited calling and on-net texting during off-peak hours and reduced rates during peak hours. As a result, Smart s 2009 outbound voice traffic more than doubled from 2008 levels. In 2010, Smart expects to expand its roster of unlimited offerings on the back of the planned capacity expansion of its networks. Smart expects to continue to successfully maintain its market leadership through innovative voice and text packages that drive activations, boost usage and strengthen brand equity.

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 Php38,850 million, or 44%, and Php37,275 million, or 43%, of cellular service revenues in 2009 and 2008, respectively. Local calls continue to dominate outbound traffic, constituting 78% of all our cellular minutes. Domestic outbound calls totaled 10,404 million minutes in 2009, an increase of 6,594 million minutes, or 173%, compared to 3,810 million minutes in 2008 due to increased usage resulting from unlimited voice offerings. International inbound and outbound calls totaled 2,923 million minutes in 2009, an increase of 25 million minutes, or 1%, as compared with 2,898 million minutes in 2008, mainly due to an increase in cellular subscriber base. The ratio of inbound-to-outbound international long distance minutes was 14.4:1 for 2009, compared to 12.1:1 in 2008.

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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. Though strong volume growth in text messaging contributed significantly to Smart s cellular revenue growth in 2009, revenues from this service declined by 2% to Php44,573 million from Php45,285 million in 2008 mainly due to the increased prevalence of unlimited voice and data offers and the increase in the number of subscribers who also hold SIM cards from other cellular operators and who selectively use such SIM cards in their calls and SMS, intense competition, the continued decline in SMS yield as a result of aggressive SMS offers and alternative means of communication. In 2009, Smart s text messaging system handled over 21,167 million outbound messages on standard SMS services with another 256,391 million messages generated by bucket-priced text services. This compares to 24,378 million outbound messages on standard SMS services in 2008 and 223,373 million outbound messages generated through bucket-priced text service.

The success of text messaging is an indicator of future data usage potential in this market. In 2009, approximately 53% of Smart s cellular revenues were derived from data usage, compared to 55% and 54% in 2008 and 2007, 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, network 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 Php100, Php300 and Php500, which include zero, 33 and 83 free text messages, respectively. The stored value of a prepaid card remains valid for a period ranging from 30 days to 120 days depending on the denomination of the card, with larger denominations having longer validity periods 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, Php115, Php200, Php300, Php500 and Php1,000 with corresponding expiration periods. The introduction of our over-the-air *Smart Load* was followed by *Pasa Load*, a derivative service, allowing prepaid subscribers to transfer even smaller denominations to other prepaid subscribers. Since 2005, Smart has offered fixed rate or bucket plans as a means of driving subscriber activations and stimulating usage. These bucket plans, which offer a fixed number of text messages or call minutes for a limited validity period, have proven to be extremely popular with subscribers and now account for 28% of our wireless service revenues. In the past years, Smart also began to offer unlimited voice and text plans under its various brands in order to be competitive and maintain industry leadership.

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. *Red Mobile* subscriber calls to other *Red Mobile* subscribers are charged at Php0.50 per minute while calls by *Red Mobile* subscribers to *Smart Buddy, Talk N Text* and other networks subscribers are charged Php6.50 per minute.

We offer both flat rate, or regular, and consumable postpaid plans with monthly service fees ranging from Php300 to Php3,500 for *Smart Gold* and Php5,000 to Php8,000 for *Smart Infinity*. 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 Php24.73 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.

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 20 regional distributors, all exclusive and 39 key account dealers, 22 of which are exclusive. These dealers include major distributors of cellular handsets and broadband modems 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 1.3 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.

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For prepaid services, we grant discounts to dealers for prepaid phone kits, modems, air time cards and over-the-air reloads sold. Smart compensates dealers with Php100 to Php800 in cash per unit depending on the price of the prepaid phone kit sold. For modem sales, regional distributors receive Php160 in cash per unit from Smart while key account dealers get volume discounts ranging from Php100 to Php160 per unit. Air time cards and over-the-air reloads are sold to distributors at an average discount of approximately 8% and 5%, respectively. Air time cards cannot be returned or refunded and normally expire within six to 12 months after release from the Smart warehouse.

Wireless Broadband, Satellite and Other Services

Overview

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

SBI

Through SBI, we are engaged in providing wireless broadband and data services under the brand name *Smart Bro* to residential consumers as well as small and medium-scale enterprises in the Philippines. As at December 31, 2009, SBI had 1,037,720 wireless broadband subscribers, an increase of 90% as compared with 547,090 subscribers in 2008. *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.

PDSI

PDSI provides a suite of high-value IP-based products servicing corporate clients, such as wired and wireless leased line access with security and high availability option, managed services, VoIP and other value-added services such as server co-location and data center services.

Airborne Access

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

Wolfpac

Through Wolfpac, we are engaged in the business of consumer mobile applications software development and consumer mobile content development and other allied services.

Chikka

Through Chikka, we provide an internet and GSM-based instant messaging facility for mobile users or subscribers. Services include personal computer to mobile instant text messaging and vice versa, text newsletter, text-based promotions, multi-media messaging, subscription-based services, and other mobile VAS.

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.

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On October 22, 2009, Mabuhay Satellite entered into Satellite Wholesale Lease and Purchase Agreement, or SWLPA, and Operations Management Agreement, or OMA, with Asia Broadcast Satellite Holdings, Ltd., or ABS, a Bermuda company engaged in the satellite business, involving the wholesale lease by ABS of the Agila 2 satellite from Mabuhay Satellite and, upon the satisfaction of various conditions precedent, the purchase by ABS of the business of Mabuhay Satellite.

As at December 31, 2009, all significant closing conditions had been secured. On January 18, 2010, Mabuhay Satellite, ABS and Asia Broadcast Satellite, Ltd., formally executed a Conditions Precedent Waiver and First Closing Confirmation, confirming that the first closing is deemed to have occurred effective December 31, 2009. First closing means the date when the assignment of customer contracts to ABS became effective and the approval or confirmation of SWLPA by stockholders of Mabuhay Satellite representing at least two-thirds of its outstanding capital stock was obtained. Following the confirmation of first closing, the wholesale lease of transponders by Mabuhay Satellite to ABS was considered as a finance lease and the transaction was recognized as sale of satellite for a total consideration of US$9.9 million, or Php460 million, including the cost of customer contracts as at December 31, 2009. The second closing is expected to occur within the six months after the first closing.

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. For further discussion regarding the ATPA, please see *Note 24 Related Party Transactions* and *Note 26 Contractual Obligations and Commercial Commitments* to the accompanying consolidated financial statements in Item 18.

As part of the integration 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.

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

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

We offer *SmartBro Plug-It,* which provides instant internet access, through the use of a wireless modem, in places where there is Smart network coverage. On April 13, 2008, we launched *SmartBro Plug-It Prepaid,* which offers 30-minute internet access for every Php10 worth of load. In March 2009, we introduced *SmartBro Share-It*, which allows users to share their broadband access with other computers in a home network via a WiFi router. *SmartBro Share-It* runs on a High Speed Packet Access, or HSPA, 850 network ready for transfer capacities of up to 2 Mbps. Effective July 11, 2009 for *SmartBro Share-It* and December 3, 2009 for *SmartBro Plug-It*, various plans, where monthly fees depend on hours of internet usage, were replaced with Plan 999 which includes unlimited hours of internet usage and speed of up to 2Mbps.

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.

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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 variant 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 Philcom, BCC, PLDT Global Group, ClarkTel, SubicTel and Maratel. Together, these subsidiaries account for approximately 4% 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, 2009, 2008 and 2007:

	2009	2008	2007
Number of local exchange line subscribers	1,816,541	1,782,356	1,724,702
Number of fixed line employees	7,947	7,813	8,080
Number of local exchange line subscribers per employee	229	228	213
Total local exchange service revenues (in millions)	Php 15,681	Php 15,923	Php 16,205
Local exchange service revenues as a percentage of total fixed line service revenues	31%	32%	33%
Local exchange service revenues as a percentage of total service revenues	10%	10%	11%

Rates

As at December 31, 2009, basic monthly charges for our local exchange service in the Metropolitan Manila area were Php592.63 for a single-party residential line and Php1,234.02 for a single business line. Monthly charges vary according to the type of customer (business or residential) and location, with charges for urban customers generally being higher than those for rural/provincial customers. Regular installation charges amount to Php1,200 for residential customers and Php1,500 for business customers. New products launched on promotion or products bundled on existing services usually waive the installation fee or allow for a minimal installation fee of Php500. Aside from the basic monthly charges, we charge our postpaid subscribers separately for NDD, IDD and calls to mobile phones. Calls to PLDT and other landlines within a local area code are free.

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

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

Pursuant to a currency exchange rate adjustment, or CERA, mechanism authorized by the NTC, we are required to adjust our postpaid monthly local service rates upward or downward by 1% for every Php0.10 change in the peso-to-dollar exchange rate relative to a base rate of Php11.00 to US$1.00. In 2009 and 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. In a letter dated July 11, 2008, the NTC had approved our request to implement a rate rationalization program for our local service rates. In effect, there has been no change in the average Philippine peso to U.S. dollar rate of Php49.76 to US$1.00 factored in our monthly local service rates for 2009 and 2008.

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

International Long Distance Service

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

The following table shows certain information about our international long distance business and for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Total call volumes (in million minutes)	1,863	2,024	2,280
Inbound call volumes (in million minutes)	1,653	1,786	2,007
Outbound call volumes (in million minutes)	210	238	273
Inbound-outbound call ratio	7.9:1	7.5:1	7.4:1
Total international long distance service revenues (in millions)	Php 6,255	Php 7,063	Php 8,674
International long distance service revenues as a percentage of total fixed line service revenues	12%	14%	18%
International long distance service revenues as a percentage of total service revenues	4%	5%	6%

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 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 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, 2009, 2008 and 2007:

	Net Settlement					
	2009		2008		2007	
	(in millions)					
Saudi Arabia	US$	33	US$	30	US$	28
United States		25		46		55
United Arab Emirates		20		20		18
Japan		17		14		12
Canada		9		9		17
Hongkong		8		4		7
Taiwan		6		6		6
Singapore		5		5		3
Qatar		5		4		3
Others		29		36		47
Total	US$	157	US$	174	US$	196

Rates

The average termination rates for PLDT was approximately US$0.11 in 2007 and 2008 and was reduced to approximately US$0.105 in 2009.

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 Php1.50 per minute to Php15.00 per minute depending on the destination to more than 100 calling destinations (excluding the Middle East). In April 2007, we introduced the *Budget Card Middle East Edition* which offers reduced IDD call rates of Php10 per minute and Php15 per minute to 14 different destinations in the Middle East. *Budget Card* and *Budget Card Middle East Edition* are sold in denominations of Php200, Php100 and Php30 and must be consumed within 30 days from first use.

National Long Distance Service

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

The following table shows certain information about our national long distance business for the years ended December 31, 2009, 2008 and 2007:

	2009		2008		2007	
Total call volumes (in million minutes)		1,822		1,944		2,183
Total national long distance service revenues (in millions)	Php	5,969	Php	6,207	Php	6,338
National long distance service revenue as a percentage of total fixed line service revenues		12%		13%		13%
National long distance service revenue as a percentage of total service revenues		4%		4%		4%

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.

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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 LECs. 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 promotions from time to time 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 LECs, 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 LECs, 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, 2009, 2008 and 2007:

	2009	2008	2007
Number of *DSL* broadband subscribers	559,664	432,583	264,291
Total data and other network service revenues (in millions)	Php 21,567	Php 18,607	Php 15,921
Data and other network service revenues as a percentage of total fixed line service revenues	42%	38%	33%
Data and other network service revenues as a percentage of total service revenues	14%	12%	11%

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 2009 and continued to grow in the first quarter of 2010.

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.

In 2009, we continued to broaden our service offerings with the launch of new services and expansion or enhancement of some of the existing offerings.

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.

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We also offer *PLDT WeRoam*, a wireless broadband service, running on the PLDT Group s nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies).

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

The steady demand for dedicated international connectivity or private networking from the corporate market, offshore and outsourcing industries, and semiconductor market using PLDT s extensive international alliances and domestic data offerings Fibernet, Arcstar, other Global Service Providers such as BT-Infonet, Orange Business and Verizon; ISDN has been increasingly popular with corporate customers, especially the Primary Rate Interface type, I-Gate.

Growth of our domestic data services was driven by the continued increase in DSL subscribers, and IP-VPN and Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers, as demand from the offshoring and outsourcing segment continues to increase. *Shops.Work Unplugged* or SWUP, our wireless VPN service that powers wireless point-of-sale terminals and a growing number of off-site bank ATMs, also sustained its penetration into the market with the introduction of its offering where one terminal can now accept all ATM debit and credit cards. This service is expected to contribute significantly to PLDT data service revenue in the near-term.

Diginet, our domestic private leased line service, has been providing Smart s increasing fiber optic and leased line data requirements.

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 Php11,549 million, Php10,983 million and Php10,322 million for 2009, 2008 and 2007, respectively, accounting for 7% of our total revenues in each year. The growth in the revenue contribution from our information and communication technology segment was primarily due to the increase in co-location revenues and disaster recovery revenues from our data center business complemented by the growth in our internet and online gaming businesses.

Knowledge Processing Solutions

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

Customer Interaction Solutions

ePLDT has established one umbrella brand name, *ePLDT Ventus*, for all of its customer interaction 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 own and operate approximately 7,140 seats with 5,190 customer service representatives, or CSRs, in 2009 as compared with approximately 6,580 seats with 5,800 CSRs in 2008. In each of the years 2008 and 2007, *ePLDT Ventus* had seven customer interaction solution sites.

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Internet and Online Gaming

ePLDT owns a 99.6% equity 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% equity interest in Digital Paradise, an internet café business with 132 branches which assumed the assets of Netopia Computer Technologies, Inc. and the brand *Netopia.* ePLDT further holds an 80% equity 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 and Others

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, 2009, Smart had 45 mobile switching centers and 78 text messaging service centers and 9,727 cellular/mobile broadband base stations in operation after having added 1,250 cellular/mobile broadband base stations to its nationwide cellular network in 2009. 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 been continuously extending its 3G network since it commenced 3G operations, and its 3G network now covers 410 cities and municipalities which includes the whole Metro Manila and major urban centers nationwide. Smart also plans to upgrade its 3G network to HSDPA to provide users with high download data rates and an improved broadband experience.

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Smart had been co-locating its cell sites where its base stations are installed. As at December 31, 2009, 27 of Smart s mobile switching centers and 223 of Smart s cell sites were housed in PLDT s fixed line complexes. These operational synergies have allowed Smart to reduce switch installation time from three months to five weeks.

Wireless Broadband, Satellite and Other Services

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

Mabuhay Satellite controls and operates the Agila 2 satellite, which has 30 C-band transponders and 24 Ku-band transponders covering the Asia-Pacific region, the Indian subcontinent and Hawaii. Of the 54 transponders, six have restricted usage due to satellite interference. Through the Agila 2 satellite, Mabuhay Satellite caters to providers of internet backbone access, and video and data broadcasting, and also provides bandwidth-on-demand, facilitating communication links between telecommunications, broadcast and other public utility companies operating in the Asia-Pacific region. In December 2000, Agila 2 satellite joined the U.S. FCC s Permitted Space Station list, which permits U.S.-owned and operated earth stations in Hawaii to access Agila 2 satellite for transpacific telecommunications, data, video and internet-over-satellite traffic and vice versa. On October 22, 2009, Mabuhay Satellite entered into agreements with ABS for the wholesale lease by ABS of the Agila 2 satellite from Mabuhay Satellite and, upon the satisfaction of various conditions precedent, and the purchase by ABS of the business of Mabuhay Satellite. See Item 3. Information on the Company Business Wireless Broadband, Satellite and Other Services Mabuhay Satellite for further information.

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. We have a total of 228 central office exchanges nationwide as at December 31, 2009 and continuously expanding the wireline infrastructure in unserved and underserved areas using new technology.

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 have also started the upgrading of our legacy data and transport networks to IP-based platform. This enables us to also replace the old data network and provides new capabilities to our corporate data customers. We expect to complete this initiative in 2012.

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

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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 has an aggregate capacity of 1.2 Terabits per second and is connected directly to five 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 that has been extended until March 31, 2011.

PLDT completed the 12th phase of its DFON expansion program using 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.

On February 25, 2010, PLDT completed the 13th phase of its DFON expansion program with the recent activation of an additional 320 Gbps across six network loops nationwide to serve the rising demand for bandwidth as more customers increase their usage of broadband internet and multimedia services. This recent expansion project increased the aggregate operating capacity of PLDT s DFON to about 1.2 Terabits per second at a total cost of about Php600 million.

PLDT has also embarked on a Php2.6 billion DFON network fortification program through establishment of loops within the loops to enhance network resiliency to protect its existing businesses and attract new businesses nationwide. As at May 13, 2010, PLDT already completed the majority of the inland portion and expects to complete the whole project towards the beginning of the third quarter of 2010. PLDT s fiber optic transport network is augmented by the nationwide terrestrial microwave backbone operated by Smart. These microwave networks complement the higher capacity fiber optic networks and are vital in delivering reliable services to remote areas.

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. PLDT, through Piltel, acquired 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. See Information on the Company Infrastructure Fixed Line Network Infrastructure and Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Investing Activities for further information on the Meralco shares acquisition.

International

We provide international network services using our two international gateway switching exchanges. As at December 31, 2009, our international long distance facilities allow direct correspondence with 40 countries (representing 87 correspondents) and can reach 478 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.

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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
China-U.S. Cable	Japan, China, Taiwan, Korea, Guam and the U.S. Mainland
FLAG Cable	Japan, Korea, China, Hong Kong, Malaysia, Thailand, India, United Arab Emirates, Saudi Arabia, Egypt, Italy, Spain and UK
Southern Cross Cable	U.S. Mainland, Hawaii, Fiji, Australia and New Zealand
EAC Cable	Japan, Hong Kong, Korea, Taiwan, Singapore and the Philippines
PC-1, Japan-U.S. Cable and TGN	Japan and the U.S.
Asia-America Gateway	Malaysia, Singapore, Thailand, Vietnam, Brunei, Hong Kong, Philippines, Guam, Hawaii and the U.S. Mainland

In November 2009, PLDT, along with a consortium of major carriers in Asia and North America, put into service a new international cable system first started in 2007, the Asia-America Gateway, connecting the Asia-Pacific Region and North America with a capacity of 100 Gigabit per second and using the latest Dense Wavelength Division Multiplexing, or DWDM, technology to provide upgradeable, future proof transmission facilities. This new cable system not only provides PLDT additional capacity to support rapid growth of broadband and resiliency to existing international cable systems, but also puts PLDT in a strategic position to be the gateway between Asia-Pacific and North America which provides opportunities for new business as regional internet hub.

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.

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.

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.

Under a separate agreement between PLDT and PAPTELCO, PLDT is the transit facility provider between Smart, Globe, other LECs, operators and PAPTELCO. 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 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.

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

PLDT has continuously and actively negotiated with other legitimate Philippine Fixed and CMTS carriers for interconnection based on the guidelines being issued by the NTC or any authorized government agency. These carriers include the major players in the industry with nationwide operations, PAPTELCO and other non-PAPTELCO players, both of which usually operate in selected towns in the provinces.

For direct interconnection, termination/access charges or the charges a carrier bills the other in directly accessing its network are bilaterally negotiated and agreed upon by the carriers, pursuant to NTC rules and regulations.

As an authorized Inter-Exchange Operator, PLDT provides transit services or calls originating from one carrier and terminating to the other via PLDT s network. PLDT provides extensive transit services to PAPTELCO and non-PAPTELCO carriers, these entities virtually having no telecommunications backbone of their own. As at December 31, 2009, PAPTELCO has 47 member companies operating 130 main telephone exchanges in the provinces.

In 2009, wholesale termination rate to PLDT fixed line network remained at approximately US$0.105 per minute while traffic to Smart via PLDT international gateway facility was rated wholesale at approximately US$0.1275 per minute. Despite the global trend to reduce wholesale international termination rates, PLDT has kept its rates at the above approximately US$0.10 level considering the cost to haul and terminate these calls to its subscribers.

Licenses and Regulations

Licenses

PLDT, Subictel, Clarktel, Philcom, 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 Subictel, in 2019; in the case of Clarktel, on June 30, 2024; in the case of Philcom, in November 2019; 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 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 seven areas in Albay province. On July 17, 2009, the NTC granted PLDT a Provisional Authority under NTC Case No. 2006-078 to operate in the seven areas in Albay, thereby, authorizing it to operate nationwide.

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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 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 timely filed an 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 3, 2009, Smart filed a motion for issuance of CPCN or extension of provisional authority for the nationwide public calling office and payphone service which remains pending before the NTC. On September 29, 2009, Smart was granted a provisional authority to install, operate and maintain a nationwide data communications network which is valid for 18 months and expires on March 29, 2011.

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 was 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 was 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. On January 8, 2010, the NTC approved the transfer to SBI of Piltel s CPCN to establish, construct, operate and maintain a nationwide CMTS.

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.

On August 26, 2009, the NTC granted SBI a CPCN for the installation, operation and maintenance of the data leased channel circuit network service for a period coterminous with the life of its existing franchise. SBI is a grantee of a provisional authority 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, Dinagat Island and Shariff Kabunsuan. The provisional authority is valid for 18 months from September 29, 2009 until March 29, 2011. 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 25-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. On December 3, 2009, CURE filed a motion for issuance of CPCN or extension on the provisional authority. CURE had submitted its roll-out plan to the NTC on January 4, 2010. As at the date of this annual report, this motion is still pending with the NTC.

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PDSI is a grantee of a 25-year congressional franchise under R.A. 8992 which expires on January 26, 2026. The scope of its franchise is to construct, install, establish, operate and maintain for commercial purposes and in the public interest, the business providing basic and enhanced telecommunication services in and between provinces and municipalities in the Philippines and between the Philippines and other countries and territories.

PDSI is a holder of a provisional authority issued by the NTC to construct, install, operate and maintain an information and data communication network in key cities and municipalities in the Philippines on December 22, 2005 with validity of 18 months or until June 22, 2007. PDSI filed a Motion for Extension of a provisional authority and/or issuance of CPCN on June 13, 2007 which was granted by the virtue of an Order dated July 12, 2007. The provisional authority was extended up to but not beyond June 22, 2010. Likewise, PDSI is a registered VAS provider for internet access services and VoIP.

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

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(1)	AMPS/CDMA	824-825/869-870 MHz	1.0 MHz
		845-846.5/890-891.5 MHz	1.5 MHz
SBI	Wireless broadband	2670-2690 MHz(2)	20.0 MHz
		2400-2483.5 MHz(2)	73.0 MHz
		3400-3590 MHz(2)	94.0 MHz
		5470-5850 MHz(2)	123.0 MHz
CURE	3G	1955-1965/2145-2155 MHz	10.0 MHz
PDSI	BWA (WiMAX)	2340-2370 MHz	30.0 MHz

(1) *On January 8, 2010, the NTC approved the transfer of Piltel s CPCN to SBI.*

(2) *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 rural lines, respectively, and each has received a certificate of compliance from the NTC.

PLDT, Subictel, Clarktel, Philcom, 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 a 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.

In 2009, the NTC issued a number of directives that regulate the manner in which we conduct our business:

On July 3, 2009, the NTC issued Memorandum Circular No. 03-07-2009, imposing an extension of the expiration of the prepaid loads from two months to various expiration periods ranging from from three days to 120 days. Smart has been implementing the new validity period of prepaid loads since July 19, 2009.

On July 7, 2009, the NTC amended its rules on broadcast messaging in Memorandum Circular No. 04-07-2009, prohibiting content and/or information providers from initiating push messages. It further requires that subscribers be the party to initiate any services with public telecommunication entities and/or content providers, be sent a notification when they subscribe for any service and be given an option whether to continue with the availed service.

On July 23, 2009, the NTC issued Memorandum Circular No. 05-07-2009 mandating cellular operators, including Smart, to charge calls on a maximum six-second pulse basis instead of the previous per minute basis whether the subscriber is prepaid or postpaid. The NTC granted Smart the provisional authority to charge new rates and implement six second pulse scheme on December 5, 2009. Smart subsequently implemented the six seconds per pulse directive by billing on a six second per pulse basis, if subscribers entered additional dialing numbers as a prefix before the actual number. The NTC opposed Smart s implementation of the six seconds per pulse directive. As of March 31, 2010, the matter is pending before the Court of Appeals and is the subject of a temporary restraining order preventing the NTC from implementing its six second per pulse billing directive.

The six second per pulse billing scheme is expected to have a negative impact on Smart s revenue, profit and ARPU as this is expected to decrease the amount of time billed per call as a result of moving to shorter billing intervals of six seconds from the previous one minute.

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 on October 7, 2008 and became effective on October 23, 2008; and

(b) guidelines on the interconnection of LECs in local calling areas that eliminate interconnection access charges between LECs within a local calling area, which were issued on May 30, 2008 and became effective on June 17, 2008.

In addition, on April 14, 2009, the NTC released the implementing guidelines on developing reference access offers, which are statements of the prices, terms and conditions under which a telecommunications carrier proposes to provide access to its network or facilities to another such carrier or value-added service provider.

Competition

Including us, there are nine major LECs, 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, Piltel and CURE, all being part of the PLDT Group, form another operating group. These two operating groups have an approximately 86% share 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 an approximately 14% share of the cellular market as at December 31, 2009. 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 9,727 cellular/mobile broadband base stations as at December 31, 2009.

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.

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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 2008 and 2009 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.

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 384 kbps. 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 variant 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. Sun Cellular and Globe have also launched new pricing schemes to grow their outbound call volumes.

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

National Long Distance Service

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

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

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

Data and Other Network Services

Another rapidly growing segment of the industry is the market for data and other network services. The growth is spurred by the significant growth in consumer and retail narrowband and broadband internet access, enterprise resource planning applications, customer interaction solutions, knowledge processing solutions, 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, 2009, we had 5,539 cellular cell sites and 9,727 cellular/mobile broadband base stations.

As at December 31, 2009, our principal properties, excluding property under construction, consisted of the following, based on net book values:

- 68% 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;
- 15% 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.

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For more information on these properties, see *Note 9 Property, Plant and Equipment* to the accompanying 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 LEC assets of Cruz Telephone Company, Inc., or Cruztelco, a local exchange operator offering fixed line services in key parts of Visayas and Mindanao and some parts of Luzon. Please see *Note 9 Property, Plant and Equipment SBI s Acquisition of Cluster 3 Assets from Cruz Telephone Company, Inc., or Cruztelco* in the accompanying consolidated financial statements in Item 18 for further discussion.

On October 22, 2009, Mabuhay Satellite entered into SWLPA and OMA with Asia Broadcast Satellite Holdings, Ltd., or ABS, a Bermuda company engaged in the satellite business, involving the wholesale lease by ABS of theAgila 2 satellite from Mabuhay Satellite and, upon the satisfaction of various conditions precedent, the purchase by ABS of the business of Mabuhay Satellite. As at December 31, 2009, all significant closing conditions have been secured. On January 18, 2010, Mabuhay Satellite, ABS and Asia Broadcast Satellite, Ltd., formally executed a Conditions Precedent Waiver and First Closing Confirmation, confirming that the first closing is deemed to have occurred effective December 31, 2009. First closing means the date when the assignment of customer contracts to ABS became effective and the approval or confirmation of SWLPA by stockholders of Mabuhay Satellite representing at least two-thirds of its outstanding capital stock was obtained. Following the confirmation of first closing, the wholesale lease of transponders by Mabuhay Satellite to ABS was considered as a finance lease and the transaction was recognized as sale of satellite for a total consideration of US$9.9 million, or Php460 million, including the cost of customer contracts as at December 31, 2009.

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 26 Contractual Obligations and Commercial Commitments* to the accompanying consolidated financial statements in Item 18.

For 2010, we expect that cash from operations should enable us to increase the level of our capital expenditures for the continued expansion and upgrading of our network infrastructure. We expect to make additional investments in our core facilities to maximize existing technologies and increase capacity to accommodate expected continued increases in call and text volumes as a result of unlimited voice and text offerings and other promotions. Our 2010 budget for consolidated capital expenditures is approximately Php28.6 billion, of which approximately Php16.4 billion is budgeted to be spent by Smart, approximately Php10.8 billion is budgeted to be spent by PLDT and the balance represents the budgeted capital spending of our other subsidiaries.

Item 4A. Unresolved Staff Comments

None.

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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 consolidated financial statements (and the related notes) as at December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007 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 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, 2009 of Php46.43 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 business units based on our products and services and have three reportable operating sergments which serve as the basis for management s decision to allocate resources and evaluate operating performance:

Wireless wireless telecommunications services provided by Smart, Piltel (on August 17, 2009, Smart acquired the cellular business of Piltel) and CURE, our cellular service providers; SBI, BOW, Airborne Access and PDSI, our wireless broadband service providers; Wolfpac and Chikka Group, our wireless content operator; Mabuhay Satellite and ACeS Philippines, our satellite operators;

Fixed Line fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT s subsidiaries, namely, ClarkTel, Subictel, Philcom, Maratel, SBI, PDSI, BCC and PLDT Global, all of which account for approximately 4% 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 and BayanTrade Group; 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 10 Investments in Associates and Joint Ventures* to the accompanying 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 with increasing significance 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 or appreciation 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 or gains, respectively. For example, the Philippine peso appreciated against the U.S. dollar from Php47.65 as at December 31, 2008 to Php46.43 as at December 31, 2009, as a result of which we recognized in 2009 foreign exchange gains in the amount of Php909 million, representing a change of Php7,079 million from a foreign exchange losses of Php6,170 million recognized in 2008. This change more than offset the increase in our expenses in 2009 and, together with lower provision for income tax in 2009, was the primary reason for an increase in our net income in 2009 compared to 2008. Moreover, since approximately 34% of our revenues are

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either denominated in U.S. dollars or linked to the U.S. dollar, a depreciation or appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar increases or decreases our revenues in peso terms and increases or decreases our cash flow from operations, respectively. For example, in 2009, the depreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar from Php44.47 in 2008 to Php47.64 in 2009 increased our U.S. dollar and U.S. dollar-linked revenues in peso terms. Furthermore, fluctuations of the Philippine peso against the U.S. dollar resulted in gains or losses on our derivative financial instruments, which with increasing significance affect our results of operations and financial position. For example, we recognized in 2009 net losses on derivative financial instruments of Php1,006 million compared to net gains of Php3,115 million in 2008. 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. The uncertainties inherent in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future years. Please see *Note 3 Management s Use of Judgments, Estimates and Assumptions* to the accompanying consolidated financial statements in Item 18 for further discussion.

Judgments

In the process of applying the PLDT Group s accounting policies, management has made the following judgments, apart from those including estimations and assumptions, which have the most significant effect on the amounts recognized in our consolidated financial statements.

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 from and cost of rendering products and services.

The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso except for SMHC, SMI, TSI, Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries, and certain subsidiaries of Chikka, for which the functional currency is the U.S. dollar; Thai baht for Digipar Thailand; and Singapore dollar for SCH, SGP, 3rd Brand, BOW, and certain subsidiaries of BayanTrade.

Leases

As a lessee, we have various lease agreements 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 (finance lease) or retained by the lessor (operating lease) 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 Php4,055 million, Php3,656 million and Php2,762 million for the years ended December 31, 2009, 2008 and 2007, respectively. Total finance lease obligations as at December 31, 2009 and 2008 amounted to Php64 million and Php70 million, respectively. See *Note 20 Interest-bearing Financial Liabilities, Note 26 Contractual Obligations and Commercial Commitments* and *Note 28 Financial Assets and Liabilities* to the accompanying 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 end of the reporting period 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:

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 recoverable amount of property, plant and equipment, investments, intangible assets and other noncurrent assets, 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, intangible assets and other noncurrent assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and financial performance. 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, 2009, 2008 and 2007 amounted to Php5,061 million, Php4,180 million and Php1,317 million, respectively. See *Note 4 Operating Segment Information, Note 5 Income and Expenses* and *Note 10 Investments in Associates and Joint Ventures* to the accompanying 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, inventories and supplies and prepayments are separately disclosed in *Notes 9, 10, 14, 16, 17* and *18,* respectively, to the accompanying consolidated financial statements in Item 18.

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 estimate 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.

The total depreciation and amortization of property, plant and equipment amounted to Php25,607 million, Php24,709 million and Php28,613 million for the years ended December 31, 2009, 2008 and 2007, respectively. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization, amounted to Php161,256 million and Php160,326 million as at December 31, 2009 and 2008, respectively. SBI recognized additional depreciation and amortization charge of Php830 million for the year ended December 31, 2009 due to a decrease in the estimated useful lives of certain customer premise equipment included in the telecommunications equipment account as a result of decreased expected economic benefits from such equipment. See *Note 4 Operating Segment Information* and *Note 9 Property, Plant and Equipment* to the accompanying 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. Appraisal of investment properties are annually performed every December 31.

Net gains from fair value adjustments in our investment properties for the years ended December 31, 2009, 2008 and 2007 amounted to Php352 million, Php59 million and Php3 million, respectively. Total carrying values of our investment properties as at December 31, 2009 and 2008 amounted to Php1,210 million and Php617 million, respectively. See *Note 12 Investment Properties* to the accompanying consolidated financial statements in Item 18.

Goodwill and intangible assets

Our consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the acquisition method starting January 1, 2009 and purchase method for prior year acquisitions, which require extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree s identifiable assets and liabilities and contingent liabilities, if any, 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 our consolidated statement of financial position. 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 financial performance.

Intangible assets acquired from business combination with finite lives are amortized over the useful economic life using the straight-line method of accounting. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

The total amortization of intangible assets amounted to Php368 million, Php377 million and Php390 million for the years ended December 31, 2009, 2008 and 2007, respectively. Total carrying values of goodwill and intangible assets as at December 31, 2009 and 2008 amounted to Php13,024 million and Php10,450 million, respectively. See *Note 13 Business Combinations and Acquisition of Non-Controlling Interests* and *Note 14 Goodwill and Intangible Assets* to the accompanying consolidated financial statements in Item 18.

Recognition of deferred income tax assets and liabilities

We review the carrying amounts of deferred income tax assets at the end of each reporting period 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. We also review the level of projected gross margin for the use of Optional Standard Deduction, or OSD, and assess the future tax consequences for the recognition of deferred income tax assets and deferred income tax liabilities. Based on Smart and some of its subsidiaries projected gross margin, they expect to use the OSD method in the foreseeable future.

Based on the above assessment, our unrecognized consolidated deferred income tax assets due to insufficient taxable income as at December 31, 2009 and 2008 amounted to Php1,236 million and Php545 million, respectively. In addition, our unrecognized deferred income tax assets and liabilities for items which would not result to future tax consequences when using the OSD method amounted to Php4,280 million and Php984 million, respectively. Total consolidated provision for deferred income tax amounted to Php656 million, Php2,715 million and Php8,031 million for the years ended December 31, 2009, 2008 and 2007, respectively. Total consolidated net deferred income tax assets as at December 31, 2009 and 2008 amounted to Php7,721 million and Php9,605 million, respectively, while total consolidated net deferred income tax liabilities as at December 31, 2009 and 2008 amounted to Php1,321 million and Php1,288 million, respectively. See *Note 4 Operating Segment Information* and *Note 7 Income Tax* to the accompanying 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 amount of allowance is evaluated by management on the basis of factors that affect the collectability 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 reevaluated 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 asset impairment provision for trade and other receivables recognized in our consolidated income statements amounted to Php2,335 million, Php1,079 million and Php417 million for the years ended December 31, 2009, 2008 and 2007, respectively. Trade and other receivables, net of asset impairment, amounted to Php14,729 million and Php15,909 million as at December 31, 2009 and 2008, respectively. See *Note 4 Operating Segment Information, Note 5 Income and Expenses, Note 16 Trade and Other Receivables* and *Note 28 Financial Assets and Liabilities* to the accompanying 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 our consolidated income statement.

Total write-down of inventories and supplies recognized for the years ended December 31, 2009, 2008 and 2007 amounted to Php389 million, Php242 million and Php243 million, respectively. The carrying values of inventories and supplies amounted to Php2,165 million and Php2,069 million as at December 31, 2009 and 2008, respectively. See *Note 4 Operating Segment Information, Note 5 Income and Expenses* and *Note 17 Inventories and Supplies* to the accompanying consolidated financial statements in Item 18.

Estimation of pension benefit costs and retirement benefits

The cost of defined benefit plans and present value of the pension obligation are determined using projected unit credit method. Actuarial valuation includes making various assumptions which consists, among other things, discount rates, expected rates of return on plan assets, rates of compensation increases and mortality rates. 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 present value of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. 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 cost for pension and other retirement obligations. All assumptions are reviewed at each reporting date.

Total consolidated pension benefit costs amounted to Php1,306 million, Php725 million and Php1,773 million for the years ended December 31, 2009, 2008 and 2007, respectively. Unrecognized net actuarial loss as at December 31, 2009 and 2008 amounted to Php2,474 million and Php1,126 million, respectively. As at December 31, 2009, the prepaid benefit costs amounted to Php5,414 million. As at December 31, 2009 and 2008, the accrued benefit costs amounted to Php359 million and Php2,623 million, respectively. See *Note 5 Income and Expenses, Note 18*

Prepayments and *Note 25 Share-based Payments and Employee Benefits* to the accompanying consolidated financial statements in Item 18.

Share-based payment transactions

Our LTIP grants 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 our consolidated statements of income. The estimates and assumptions are described in *Note 25 Share-based Payments and Employee Benefits* to the accompanying consolidated financial statements in Item 18 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, 2009, 2008 and 2007 amounted to Php1,833 million, Php1,281 million and Php1,448 million, respectively. As at December 31, 2009 and 2008, outstanding LTIP liability amounted to Php4,582 million and Php2,749 million, respectively. See *Note 5 Income and Expenses, Note 23 Accrued Expenses and Other Current Liabilities* and *Note 25 Share-based Payments and Employee Benefits* to the accompanying consolidated financial statements in Item 18.

Provision for asset retirement obligations

Provision for 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/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/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 Php1,204 million and Php1,100 million as at December 31, 2009 and 2008, respectively. See *Note 21 Deferred Credits and Other Noncurrent Liabilities* to the accompanying consolidated financial statements in Item 18.

Provision for legal contingencies and tax assessments

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 financial performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See *Note 27 Provisions and Contingencies* to the accompanying consolidated financial statements in Item 18.

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 use of such estimates will not result in material adjustments in future periods.

Revenues under a multiple element arrangement specifically applicable to our fixed line and 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.

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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

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Total fair values of financial assets and liabilities as at December 31, 2009 amounted to Php58,225 million and Php164,998 million, respectively, while the total fair values of financial assets and liabilities as at December 31, 2008 amounted to Php59,463 million and Php119,717 million, respectively. See *Note 28 Financial Assets and Liabilities* to the accompanying consolidated financial statements in Item 18.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2009

Please see *Note 2 Summary of Significant Accounting Policies* to the accompanying consolidated financial statements in Item 18 for a discussion of new accounting standards that will become effective subsequent to December 31, 2009 and their anticipated impact on our consolidated financial statements for the current and future periods.

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Results of Operations

The table below shows the contribution by each of our business segments to our consolidated 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, 2009, 2008 and 2007. 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 (in millions)	Inter-segment Transactions	Consolidated
For the year ended December 31, 2009					
Revenues	Php 97,524	Php 51,373	Php 11,549	Php (12,453)	Php 147,993
Expenses	52,432	39,081	11,289	(12,691)	90,111
Other income (expenses)	1,149	(4,170)	216	(238)	(3,043)
Income before income tax	46,241	8,122	476		54,839
Net income	33,727	5,864	504		40,095
Net income attributable to equity holders of PLDT	33,394	5,854	533		39,781
For the year ended December 31, 2008					
Revenues	95,852	49,686	10,983	(10,684)	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 attributable to equity holders of PLDT	31,674	7,516	30	69	39,289

2009 Compared to 2008

On a Consolidated Basis

Revenues

Our revenues for 2009 increased by Php2,156 million, or 1%, to Php147,993 million from Php145,837 million in 2008. This increase was primarily due to an increase in our service revenues by Php2,774 million resulting largely from an increase in the service revenues of our wireless and fixed line businesses, which was primarily due to an increase in the number of our cellular and broadband subscribers, which was partially offset by a decrease in our non-service revenues.

The following table shows the breakdown of our consolidated revenues for the years ended December 31, 2009 and 2008 by business segment:

	2009	%	2008	%	Change Amount	%
			(in millions)			
Wireless	Php 97,524	66	Php 95,852	66	Php 1,672	2
Fixed line	51,373	34	49,686	34	1,687	3
Information and communications technology	11,549	8	10,983	7	566	5
Inter-segment transactions	(12,453)	(8)	(10,684)	(7)	(1,769)	17
Consolidated	Php 147,993	100	Php 145,837	100	Php 2,156	1

Expenses

Our expenses in 2009 increased by Php4,325 million, or 5%, to Php90,111 million from Php85,786 million in 2008 largely resulting from increases in compensation and employee benefits, depreciation and amortization, asset impairment, rent and other operating expenses partly offset by lower provisions, professional and other contracted services, and communication, training and travel expenses. As a percentage of our consolidated revenues, consolidated expenses increased to 61% in 2009 from 59% in 2008.

The following table shows the breakdown of our consolidated expenses for the years ended December 31, 2009 and 2008 by business segment:

	2009	%	2008	%	Change Amount	%
			(in millions)			
Wireless	Php 52,432	58	Php 47,589	55	Php 4,843	10
Fixed line	39,081	43	35,733	42	3,348	9
Information and communications technology	11,289	13	13,267	16	(1,978)	(15)
Inter-segment transactions	(12,691)	(14)	(10,803)	(13)	(1,888)	17
Consolidated	Php 90,111	100	Php 85,786	100	Php 4,325	5

Other Expenses

Other expenses decreased by Php2,959 million, or 49%, to Php3,043 million in 2009 as compared with Php6,002 million in 2008. The decrease was primarily due to the combined effects of the following: (i) net foreign exchange gains of Php909 million in 2009 as compared with net foreign exchange losses of Php6,170 million in 2008 due to the appreciation of the Philippine peso to the U.S. dollar to Php46.43 as at December 31, 2009 from Php47.65 as at December 31, 2008; (ii) an increase in other income of Php404 million primarily due to a gain on fair value adjustment of investment properties and a gain on the dissolution of Mabuhay Space Holdings Limited, a joint venture between Mabuhay Satellite and Space Systems/Loral, Inc.; (iii) an increase in equity share in net earnings of associates and joint ventures by Php178 million due to the share in net earnings of Meralco from July 15, 2009 (Piltel acquired a 20% equity interest of Meralco on July 14, 2009) to December 31, 2009; (iv) lower interest income by Php129 million due to lower average interest rate on money market placements and special deposits; (v) an increase in net financing costs by Php452 million mainly due to higher interest on loans and other related items net, on account of PLDT s and Smart s higher average loan balances, depreciation of foreign exchange rate and lower capitalized interest; and (vi) net losses on derivative financial instruments of Php1,006 million on account of loss on mark-to-market valuation on foreign currency swaps in 2009 as against net gains on derivative financial instruments of Php3,115 million in 2008 due to the effect of the de-designation of foreign currency swaps and option contracts.
The following table shows the breakdown of our consolidated other income (expenses) for the years ended December 31, 2009 and 2008 by business segment:

	2009	%	2008	%	Change Amount	%
			(in millions)			
Wireless	Php 1,149	38	Php (2,640)	44	Php 3,789	144
Fixed line	(4,170)	(137)	(3,173)	53	(997)	(31)
Information and communications technology	216	7	(1)		217	21,700
Inter-segment transactions	(238)	(8)	(188)	3	(50)	27
Consolidated	Php (3,043)	100	Php (6,002)	100	Php 2,959	(49)

Provision for Income Tax

Provision for income tax decreased by Php4,329 million, or 23%, to Php14,744 million in 2009 compared with Php19,073 million in 2008 mainly due to a reduction in the regular corporate income tax rate from 35% to 30% beginning January 2009 and the availment of the optional standard deduction, or OSD, method in the computation of income tax by Smart and certain of our wireless and fixed line subsidiaries.

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Net Income

As a result, our consolidated net income in 2009 was Php40,095 million, an increase of Php5,119 million, or 15%, compared to Php34,976 million in 2008 primarily due to lower consolidated other expenses net, lower consolidated provision for income tax and higher consolidated revenues partially offset by a slight increase in consolidated expenses. The following table shows the breakdown of our consolidated net income for the years ended December 31, 2009 and 2008 by business segment:

	2009	%	2008	%	Change Amount	%
			(in millions)			
Wireless	Php 33,727	84	Php 29,499	84	Php 4,228	14
Fixed line	5,864	15	7,732	22	(1,868)	(24)
Information and communications technology	504	1	(2,186)	(6)	2,690	123
Inter-segment transactions			(69)		69	100
Consolidated	Php 40,095	100	Php 34,976	100	Php 5,119	15

On a Business Segment Basis

Wireless

Revenues

Revenues generated from our wireless business amounted to Php97,524 million in 2009, an increase of Php1,672 million, or 2%, from Php95,852 million in 2008. The following table summarizes our total revenues from our wireless business for the years ended December 31, 2009 and 2008 by service segment:

	2009	%	2008	%	Increase (Decrease) Amount	%
			(in millions)			
Wireless Services:						
Service Revenues:						
Cellular	Php 88,410	91	Php 87,518	92	Php 892	1
Wireless broadband, satellite and others	7,419	7	6,075	6	1,344	22
	95,829	98	93,593	98	2,236	2
Non-Service Revenues:						
Sale of cellular handsets, cellular SIM-packs and broadband data modems	1,695	2	2,259	2	(564)	(25)
Total Wireless Revenues	Php 97,524	100	Php 95,852	100	Php 1,672	2

Service Revenues

Our wireless service revenues increased by Php2,236 million, or 2%, to Php95,829 million in 2009 as compared with Php93,593 million in 2008, mainly as a result of the growth in the cellular and wireless broadband subscriber base. In particular, revenues from voice services increased due to the introduction of new unlimited voice offers, the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues to Php47.64 in 2009 from Php44.47 in 2008, as well as the growth in international inbound call volumes in 2009 as compared with 2008. Revenues from SMS, on the other hand, decreased due to the increase in the number of multiple SIM card ownership, intense competition and the continued decline in SMS yield as a result of aggressive SMS offers. Since the growth in our cellular subscriber base was mainly due to the increase in multiple SIM card ownership especially in the lower income segment of the Philippine wireless market and the increase in our call volumes was primarily due to the introduction of new unlimited voice offers, average monthly cellular ARPUs for 2009 were lower as compared with 2008. Due to the popularity of unlimited voice offers and competitive pressures, we expect this trend to continue. As a percentage of our total wireless revenues, service revenues contributed 98% in both 2009 and 2008.

Cellular Service

Our cellular service revenues in 2009 amounted to Php88,410 million, an increase of Php892 million, or 1%, from Php87,518 million in 2008. Cellular service revenues accounted for 92% of our wireless service revenues in 2009 as compared with 94% in 2008.

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

	2009		2008		Increase (Decrease) Amount		%
			(in millions)				
Cellular service revenues	Php	88,410	Php	87,518	Php	892	1
By service type		*85,922*		*85,079*		*843*	*1*
Prepaid		79,284		78,743		541	1
Postpaid		6,638		6,336		302	5
By component		*85,922*		*85,079*		*843*	*1*
Voice		38,850		37,275		1,575	4
Data		47,072		47,804		(732)	(2)
Others[(1)]		*2,488*		*2,439*		*49*	*2*

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

	2009	2008	Increase (Decrease) Amount	%
Cellular subscriber base	41,328,641	35,224,604	6,104,037	17
Prepaid	40,893,098	34,826,468	6,066,630	17
Smart Buddy	*23,762,814*	*20,501,617*	*3,261,197*	*16*
Talk N Text[(1)]	*17,050,713*	*14,308,493*	*2,742,220*	*19*
Red Mobile[(2)]	*79,571*	*16,358*	*63,213*	*386*
Postpaid	435,543	398,136	37,407	9
Systemwide traffic volumes (in millions)				
Calls (in minutes)	13,327	6,708	6,619	99

Domestic outbound	10,404	3,810	6,594	173
International	2,923	2,898	25	1
Inbound	*2,733*	*2,677*	*56*	*2*
Outbound	*190*	*221*	*(31)*	*(14)*
SMS count	279,496	249,691	29,805	12
Text messages	277,869	248,051	29,818	12
Domestic	277,558	247,751	29,807	12
Bucket-Priced	*256,391*	*223,373*	*33,018*	*15*
Standard	*21,167*	*24,378*	*(3,211)*	*(13)*
International	311	300	11	4
Value-Added Services	1,608	1,614	(6)	
Financial Services	19	26	(7)	(27)

(1) *The transfer of Piltel s cellular business to Smart was completed on August 17, 2009.*

(2) *The Red Mobile brand was launched in November 2008 by CURE.*

Revenues attributable to our cellular prepaid service amounted to Php79,284 million in 2009, an increase of Php541 million, or 1%, over the Php78,743 million earned in 2008. Prepaid cellular service revenues accounted for 92% and 93% of cellular voice and data revenues in 2009 and 2008, respectively. Revenues attributable to Smart s postpaid cellular service amounted to Php6,638 million in 2009, an increase of Php302 million, or 5%, over the Php6,336 million earned in 2008, and accounted for 8% and 7% of cellular voice and data revenues in 2009 and 2008, respectively.

Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice value-added services, or VAS, such as voice mail and outbound international roaming, increased by Php1,575 million, or 4%, to Php38,850 million in 2009 from Php37,275 million in 2008 primarily due to the introduction of new unlimited voice offers, the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues to Php47.64 in 2009 from Php44.47 in 2008 and the growth in inbound international call volumes. Cellular voice services accounted for 44% of our cellular service revenues in 2009 as compared with 43% in 2008.

Domestic outbound calls totaled 10,404 million minutes in 2009, an increase of 6,594 million minutes, or 173%, as compared with 3,810 million minutes in 2008 mainly due to increased usage resulting from unlimited voice offerings. Due to the popularity of unlimited voice offers and competitive pressures, we expect this trend to continue and to be required to further expand the capacity of our networks. International inbound and outbound calls totaled 2,923 million minutes in 2009, an increase of 25 million minutes, or 1%, as compared with 2,898 million minutes in 2008, mainly due to an increase in our cellular subscriber base.

On June 26, 2009, *Smartalk*, Smart s unlimited voice offering, was made available to *Smart Buddy* and *Smart Gold* subscribers nationwide. The new service does not require any change in SIM card or cellular phone number and enables *Smart Buddy* and *Smart Gold* subscribers to make unlimited domestic calls to any subscriber on the Smart network. Smart subscribers could avail themselves of the service, via registration or via retailer loading, by purchasing loads for unlimited calls which come in two denominations: *Smartalk 100* which offers five days of unlimited calls for Php100 and *Smartalk 500* which offers 30 days of unlimited calls to any subscriber on the Smart network for Php500. Following the positive response to this service, Smart launched a variant in October 2009, the *Smartalk Plus*, which offers unlimited calling and on-net texting during off-peak hours and at reduced rates during peak hours. *Smartalk Plus* Php100 load denomination is valid for five days and provides on-net unlimited calls and SMS from 10:01 p.m. to 5:00 p.m. and, call and SMS rates of Php2.50 per minute and Php0.20 per SMS, respectively, from 5:01 p.m. to 10:00 p.m.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php732 million, or 2%, to Php47,072 million in 2009 from Php47,804 million in 2008. Cellular data services accounted for 53% and 55% of our cellular service revenues in 2009 and 2008, respectively.

The following table shows the breakdown of our cellular data revenues for the years ended December 31, 2009 and 2008:

			Increase (Decrease)	
	2009	**2008**	**Amount**	**%**
		(in millions)		
Text messaging				

(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 Php44,573 million in 2009, a decrease of Php712 million, or 2%, as compared with Php45,285 million in 2008, and accounted for 95% of our total cellular data revenues in each of

2009 and 2008. The decrease in revenues from text messaging-related services resulted mainly from the increase in the number of subscribers who also hold SIM cards from other cellular operators and who selectively use such SIM cards in their calls and SMS, intense competition, the continued decline in SMS yield as a result of unlimited SMS offers and alternative means of communication. Text messaging revenues from the various bucket-priced plans totaled Php26,797 million in 2009, an increase of Php336 million, or 1%, as compared with Php26,461 million in 2008. On the other hand, standard text messaging revenues decreased by Php908 million to Php16,108 million in 2009 from Php17,016 million in 2008. The decrease in international text messaging revenues was mainly due to the higher average/effective rate of roaming costs in 2009.

Standard text messages totaled 21,167 million in 2009, a decrease of 3,211 million, or 13%, as compared with 24,378 million in 2008 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in 2009 totaled 256,391 million, an increase of 33,018 million, or 15%, as compared with 223,373 million in 2008.

VAS, which contributed revenues of Php2,468 million in 2009, decreased by Php6 million from Php2,474 million in 2008 primarily due to lower usage of standard services and *Pasa Load*, which is a service allowing prepaid subscribers to transfer small denominations of air time credits to other prepaid subscribers, owing to the continued patronage of low-denomination top-ups partially offset by higher usage of rich media services.

Subscriber Base, ARPU and Churn Rates

At the end of 2009, Smart (including Piltel s *Talk N Text* subscribers which were transferred to Smart on August 17, 2009) and CURE cellular subscribers totaled 41,328,641, an increase of 6,104,037, or 17%, over their combined cellular subscriber base of 35,224,604 at the end of 2008. This increase in our cellular subscriber base was primarily attributable to multiple SIM card ownership which, together with unlimited voice offers, resulted in lower average monthly cellular ARPU for 2009 than in 2008. Our cellular prepaid subscriber base grew by 17% to 40,893,098 in 2009 from 34,826,468 in 2008, while our cellular postpaid subscriber base increased by 9% to 435,543 in 2009 from 398,136 in 2008. Prepaid subscribers accounted for 99% of our total subscriber base in each of 2009 and 2008. Prepaid and postpaid subscribers reflected net activations of 6,066,630 and 37,407, respectively, in 2009 and 5,127,318 and 56,256, respectively, in 2008.

Our net subscriber activations for the years ended December 31, 2009 and 2008 were as follows:

			Increase (Decrease)	
	2009	**2008**	**Amount**	**%**
Prepaid	6,066,630	5,127,318	939,312	18
Smart Buddy	*3,261,197*	*504,293*	*2,756,904*	*547*
Talk N Text[1]	*2,742,220*	*4,606,667*	*(1,864,447)*	*(40)*
Red Mobile[2]	*63,213*	*16,358*	*46,855*	*286*
Postpaid	37,407	56,256	(18,849)	(34)
Total	6,104,037	5,183,574	920,463	18

(1) *The transfer of Piltel s cellular business to Smart was completed on August 17, 2009.*

(2) *The Red Mobile brand was launched in November 2008 by CURE.*

Our quarterly net subscriber activations over the eight quarters in 2009 and 2008 were as follows:

	2009				2008			
	1Q	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Prepaid	1,692,767	1,575,585	621,154	2,177,124	1,533,812	1,660,040	917,528	1,015,938
Smart Buddy	*419,821*	*523,496*	*644,932*	*1,672,948*	*282,044*	*130,697*	*111,487*	*(19,935)*
Talk N Text	*1,256,907*	*1,019,162*	*(32,419)*	*498,570*	*1,251,768*	*1,529,343*	*806,041*	*1,019,515*
Red Mobile	*16,039*	*32,927*	*8,641*	*5,606*				*16,358*
Postpaid	9,328	17,746	6,806	3,527	1,117	5,027	17,816	32,296
Total	1,702,095	1,593,331	627,960	2,180,651	1,534,929	1,665,067	935,344	1,048,234

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For *Smart Buddy*, the average monthly churn rate for 2009 and 2008 was 4.2% and 4.7%, respectively, while the average monthly churn rate for *Talk N Text* subscribers was 5.0% and 4.8% in 2009 and 2008, respectively. The average monthly churn rate for *Red Mobile* subscribers was 12.3% in 2009.

The average monthly churn rate for Smart s postpaid subscribers were 1.9% and 1.2% for 2009 and 2008, respectively. 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 if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within 30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, 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, 2009 and 2008:

	Gross(1)		**Decrease**		**Net(2)**		**Decrease**	
	2009	**2008**	**Amount**	**%**	**2009**	**2008**	**Amount**	**%**
Prepaid								
Smart Buddy	Php 261	Php 290	Php (29)	(10)	Php 207	Php 230	Php (23)	(10)
Talk N Text	161	194	(33)	(17)	133	158	(25)	(16)
Red Mobile	20	48	(28)	(58)	13	39	(26)	(67)
Prepaid Blended(3)	218	254	(36)	(14)	175	203	(28)	(14)
Postpaid Smart	1,817	2,065	(248)	(12)	1,313	1,483	(170)	(11)
Prepaid and Postpaid Blended(4)	235	274	(39)	(14)	188	217	(29)	(13)

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

(2)

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

(3) *The average monthly ARPU of Smart Buddy, Talk N Text and Red Mobile.*

(4) *The average monthly ARPU of all prepaid and postpaid cellular subscribers.*

Prepaid service revenues consist mainly of charges for subscribers actual usage of their loads. Prepaid blended gross average monthly ARPU in 2009 was Php218, a decrease of 14%, as compared with Php254 in 2008. The decrease was primarily due to a decline in the average outbound and inbound domestic voice and text messaging revenue per subscriber in 2009 as compared with 2008 resulting primarily from the fact that the increase in our cellular subscriber base in 2009 was primarily attributable to multiple SIM card ownership and that the increase in our call volumes resulted primarily from unlimited voice offerings. On a net basis, prepaid blended average monthly ARPU in 2009 was Php175, a decrease of 14%, as compared with Php203 in 2008.

Gross average monthly ARPU for postpaid subscribers decreased by 12% to Php1,817 as net average monthly ARPU also decreased by 11% to Php1,313 in 2009 as compared with Php2,065 and Php1,483 in 2008, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php235 in 2009, a decrease of 14%, as compared with Php274 in 2008. Net average monthly prepaid and postpaid blended ARPU decreased by 13% to Php188 in 2009 from Php217 in 2008.

Our average quarterly prepaid and postpaid ARPUs for 2009 and 2008 were as follows:

	Prepaid						Postpaid	
	Smart Buddy		Talk N Text		Red Mobile		Smart	
	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]
2009								
First Quarter	Php 272	Php 216	Php 176	Php 144	Php 25	Php 14	Php 1,863	Php 1,364
Second Quarter	269	212	168	138	16	10	1,816	1,278
Third Quarter	249	197	148	122	19	12	1,801	1,307
Fourth Quarter	252	203	152	127	18	15	1,791	1,304
2008								
First Quarter	292	230	207	163			2,013	1,472
Second Quarter	294	232	199	159			2,134	1,510
Third Quarter	285	223	178	148			2,078	1,505
Fourth Quarter	291	234	192	162	48	39	2,037	1,445

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

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

Wireless Broadband, Satellite and Other Services

Our revenues from wireless broadband, satellite and other services consist mainly of wireless broadband service revenues from SBI, rentals received for the lease of Mabuhay Satellite s transponders, charges for ACeS Philippines satellite information and messaging services and service revenues generated by the mobile virtual network operations of PLDT Global s subsidiary. Gross revenues from these services in 2009 amounted to Php7,419 million, an increase of Php1,344 million, or 22%, from Php6,075 million in 2008 principally due to the growth in subscribers of our wireless broadband business complemented by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php47.64 in 2009 from Php44.47 in 2008 on our U.S. dollar and U.S. dollar-linked revenues, partially offset by lower satellite transponder rental revenues owing to lower rental charges and a decrease in the number of transponders being leased out.

SBI offers a number of wireless broadband services and had a total of 1,037,720 subscribers in 2009, an increase of 490,630 subscribers, or 90%, as compared with 547,090 subscribers in 2008. Our postpaid wireless broadband subscriber base grew by 13,094, or 3%, to 436,037 in 2009 from 422,943 in 2008, while our prepaid wireless broadband subscriber base increased by 477,536, or 385%, to 601,683 in 2009 from 124,147 in 2008. Wireless broadband service revenues contributed Php5,383 million to wireless service revenues in 2009, representing an increase of Php1,056 million, or 24%, as compared with Php4,327 million in 2008.

Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues decreased by Php564 million, or 25%, to Php1,695 million in 2009 as compared with Php2,259 million in 2008 primarily due to the lower average retail price of cellular phonekits and SIM-packs, partly offset by increased sales of broadband data modems.

Expenses

Expenses associated with our wireless business in 2009 amounted to Php52,432 million, an increase of Php4,843 million, or 10%, from Php47,589 million in 2008. A significant portion of this increase was attributable to rent, depreciation and amortization, asset impairment, compensation and employee benefits, professional and other contracted services, and other expenses, partially offset by lower expenses related to provisions, and communication, training and travel expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 54% and 50% in 2009 and 2008, respectively.

Cellular business expenses accounted for 85% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 15% of our wireless business expenses in 2009 as compared with 90% and 10%, respectively, in 2008.

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

	2009	%	2008	%	Increase (Decrease) Amount	%
			(in millions)			
Wireless Services:						
Depreciation and amortization	Php 13,237	25	Php 11,975	25	Php 1,262	11
Rent	10,553	20	9,267	20	1,286	14
Compensation and employee benefits(1)	6,059	12	5,433	11	626	12
Cost of sales	4,363	8	4,236	9	127	3
Repairs and maintenance	4,340	8	4,230	9	110	3
Selling and promotions	4,051	8	3,781	8	270	7
Professional and other contracted services	2,904	6	2,529	5	375	15
Asset impairment	2,026	4	1,006	2	1,020	101
Taxes and licenses	2,022	4	1,872	4	150	8
Communication, training and travel	972	2	1,091	2	(119)	(11)
Insurance and security services	781	1	722	2	59	8
Amortization of intangible assets	126		133		(7)	(5)
Provisions			897	2	(897)	(100)
Other expenses	998	2	417	1	581	139
Total	Php 52,432	100	Php 47,589	100	Php 4,843	10

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

Depreciation and amortization charges increased by Php1,262 million, or 11%, to Php13,237 million in 2009 principally due to increased depreciation on the growing asset base of 3G and broadband networks, and broadband customer-deployed equipment, partly offset by a decrease in the depreciable asset base of our 2G network. Going forward, we expect our depreciation and amortization expenses to increase in line with our expected increase in our capital expenditures in 2010.

Rent expenses increased by Php1,286 million, or 14%, to Php10,553 million on account of an increase in international and domestic circuits leased by Smart from PLDT, as well as higher site rental expenses. In 2009, we had 5,539 cell sites, 9,727 cellular/mobile broadband base stations and 2,007 fixed wireless broadband-enabled base stations, as compared with 5,284 cell sites, 8,477 cellular/mobile broadband base stations and 1,986 fixed wireless broadband-enabled base stations in 2008.

Compensation and employee benefits expenses increased by Php626 million, or 12%, to Php6,059 million primarily due to increased provision for LTIP, MRP cost, merit-based increases, and employee upgrades and promotions. The increase was partly offset by a decrease in employee headcount of Smart and subsidiaries by 94 to 5,454 in 2009 as compared with 5,548 in 2008. For further discussion of our LTIP, please see *Note 25 Share-based Payments and Employee Benefits* of the accompanying consolidated financial statements in Item 18.

Cost of sales increased by Php127 million, or 3%, to Php4,363 million primarily due to higher sales volume of broadband data modems in 2009 and an increase in retention transactions, partly offset by the lower combined average cost of cellular phonekits and SIM-packs.

Repairs and maintenance expenses increased by Php110 million, or 3%, to Php4,340 million mainly due to an increase in network maintenance costs and electricity consumption, partly offset by lower fuel costs for power generation and lower software maintenance expenses.

Selling and promotion expenses increased by Php270 million, or 7%, to Php4,051 million primarily due to higher advertising, promotional campaigns and public relations expenses.

Professional and other contracted services increased by Php375 million, or 15%, to Php2,904 million primarily due to the increase in call center service fees, partly offset by lower contracted service fees, payment facility fees, consultancy and technical service fees.

Asset impairment increased by Php1,020 million, or 101%, to Php2,026 million mainly due to higher impairment on fixed assets and intangibles, higher provision for uncollectible receivables and higher provision for obsolescence of slow-moving handsets and broadband routers and modems.

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Taxes and licenses increased by Php150 million, or 8%, to Php2,022 million primarily due to higher business-related taxes and license fees.

Communication, training and travel expenses decreased by Php119 million, or 11%, to Php972 million primarily due to lower travel, training, fuel, communication and hauling expenses incurred in 2009.

Insurance and security services increased by Php59 million, or 8%, to Php781 million primarily due to the increase in the number of sites and higher salary rate of security guards.

Amortization of intangibles decreased by Php7 million, or 5%, to Php126 million primarily due to the full amortization of technical application relating to SBI, partly offset by the amortization of licenses relating to BOW.

Provisions of Php897 million in 2008 pertained to provisions for assessments. Please see *Note 27 Provisions and Contingencies* to the accompanying consolidated financial statements in Item 18 for further discussion.

Other expenses increased by Php581 million, or 139%, to Php998 million primarily due to higher various business and wireless 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, 2009 and 2008:

					Change	
	2009		**2008**		**Amount**	**%**
			(in millions)			
Other Income (Expenses):						
Gains (losses) on derivative financial instruments net	Php	1,166	Php	(241)	Php 1,407	584
Interest income		1,139		1,197	(58)	(5)
Foreign exchange gains (losses) net		387		(1,771)	2,158	122
Equity share in net losses of associates		(68)		(119)	51	(43)
Financing costs net		(2,619)		(2,029)	(590)	29
Others		1,144		323	821	254
Total	Php	1,149	Php	(2,640)	Php 3,789	144

Our wireless business segment generated other income net of Php1,149 million in 2009, an increase of Php3,789 million, or 144%, as against other expenses net of Php2,640 million in 2008 primarily due to the combined effects of the following: (1) net foreign exchange gains of Php387 million in 2009 as against net losses on foreign exchange revaluation of Php1,771 million in 2008 mainly due to the appreciation of the Philippine peso to the U.S. dollar in 2009; (2) net gains on derivative financial instruments of Php1,166 million in 2009 as against net losses on derivative transactions of Php241 million in 2008 mainly due to a gain in the mark-to-market valuation of Php1,170 million relating to the derivative option of the exchangeable note purchased as part of the Meralco share acquisition by Piltel in 2009; (3) increase in other income by Php821 million mainly due to Smart s equipment rental and gain on dissolution of Mabuhay Space Holdings Limited (please see to *Note 10 Investments in Associates and Joint Ventures* of the accompanying consolidated financial statements in Item 18 for further discussion); (4) decrease in equity share in net losses of associates by Php51 million, mainly from the decline in equity share in net losses in BOW complemented by the share in net earnings of Meralco of Php398 million from July 15, 2009 (Piltel acquired 20% equity interest of Meralco) to December 31, 2009, net of amortization of share in Meralco intangibles of Php41 million and depreciation of fair value adjustment of certain Meralco s utility, plant and others of Php59 million, partly offset by a Php381 million loss on the re-measurement of Smart s investment in BOW; and (5) higher net financing costs by Php590 million primarily due to higher interest on loans and other related items net on account of Smart s higher average loan balances, foreign exchange rate, interest rate, and lower capitalized interest.

Provision for Income Tax

Provision for income tax decreased by Php3,610 million, or 22%, to Php12,514 million in 2009 from Php16,124 million in 2008. In 2009, the effective tax rate for our wireless business was 27% as compared with 35% in 2008 mainly due to the reduction in the regular corporate income tax rate from 35% to 30% beginning January 2009 and availment of OSD in the computation of regular corporate income tax.

Net Income

Our wireless business segment recorded a net income of Php33,727 million in 2009, an increase of Php4,228 million, or 14%, from Php29,499 million recorded in 2008 primarily due to an increase of Php3,789 million in other income net, a decrease of Php3,610 million in provision for income tax and a Php2,236 million increase in wireless service revenues, partially offset by an increase in wireless-related expenses of Php4,843 million and a Php564 million decrease in non-service revenues.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php51,373 million in 2009, an increase of Php1,687 million, or 3%, from Php49,686 million in 2008. The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2009 and 2008 by service segment:

	2009	%	2008	%	Increase (Decrease) Amount	%
			(in millions)			
Fixed Line Services:						
Service Revenues:						
Local exchange	Php 15,681	31	Php 15,923	32	Php (242)	(2)
International long distance	6,255	12	7,063	14	(808)	(11)
National long distance	5,969	12	6,207	13	(238)	(4)
Data and other network	21,567	42	18,607	37	2,960	16
Miscellaneous	1,668	3	1,466	3	202	14
	51,140	100	49,266	99	1,874	4
Non-Service Revenues:						
Sale of computers	233		420	1	(187)	(45)
Total Fixed Line Revenues	Php 51,373	100	Php 49,686	100	Php 1,687	3

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 Php1,874 million, or 4%, to Php51,140 million in 2009 from Php49,266 million in 2008 primarily due to an increase in revenues from our data and other network services as a result of higher revenues contributed by our DSL and diginet services, and miscellaneous services, partially offset by a decrease in revenues from our international long distance, local exchange and national long distance services.

For a description of our service offerings, see Item 4 Information on the Company Business Fixed Line.

Local Exchange Service

The following table summarizes the key measures of our local exchange service business as at and for the years ended December 31, 2009 and 2008:

	2009	2008	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php 15,681	Php 15,923	Php (242)	(2)
Number of fixed line subscribers	1,816,541	1,782,356	34,185	2
Postpaid	1,637,981	1,533,687	104,294	7

Prepaid	178,560	248,669	(70,109)	(28)
Number of fixed line employees[1]	7,947	7,813	134	2
Number of fixed line subscribers per employee	229	228	1	

(1) *Increase in headcount was primarily due to the acquisition of Philcom.*

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Revenues from our local exchange service decreased by Php242 million, or 2%, to Php15,681 million in 2009 from Php15,923 million in 2008 primarily owing to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and higher service connection charges, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLDT Landline Plus*. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 31% in 2009 as compared with 32% in 2008.

See Item 4 *Information on the Company Business Fixed Line Local Exchange Service* for further information on our local exchange service.

International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the years ended December 31, 2009 and 2008:

	2009	2008	Decrease Amount	%
Total international long distance service revenues (in millions)	Php 6,255	Php 7,063	Php (808)	(11)
Inbound	5,198	5,667	(469)	(8)
Outbound	1,057	1,396	(339)	(24)
International call volumes (in million minutes, except call ratio)	1,863	2,024	(161)	(8)
Inbound	1,653	1,786	(133)	(7)
Outbound	210	238	(28)	(12)
Inbound-outbound call ratio	7.9:1	7.5:1		

Our total international long distance service revenues decreased by Php808 million, or 11%, to Php6,255 million in 2009 from Php7,063 million in 2008 primarily due to a decrease in inbound and outbound call volumes on account of cellular substitution and the availability of alternative economical modes of communications, such as email, text messaging and/or VoIP calls with lower international calling rates, among others, partially offset by a favorable effect from the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar in 2009. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 12% in 2009 from 14% in 2008.

Our revenues from inbound international long distance service decreased by Php469 million, or 8%, to Php5,198 million in 2009 from Php5,667 million in 2008 due to a decline in inbound traffic volume by 133 million minutes to 1,653 million minutes in 2009 with more traffic terminating to cellular operators where the net revenue retained by us is lower. The decreasing effect was partially offset by a favorable effect from the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar which increased our inbound international long distance revenues, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php339 million, or 24%, to Php1,057 million in 2009 from Php1,396 million in 2008 primarily due to the decline in outbound international call volumes partially offset by the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php47.64 in 2009 from Php44.47 in 2008, resulting in an increase in the average billing rates to Php47.78 in 2009 from Php43.95 in 2008.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2009 and 2008:

	2009	2008	Decrease Amount	%

Total national long distance service revenues (in millions)	Php	5,969	Php	6,207	Php	(238)	(4)
National long distance call volumes (in million minutes)		1,822		1,944		(122)	(6)

Our national long distance service revenues decreased by Php238 million, or 4%, to Php5,969 million in 2009 from Php6,207 million in 2008 primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute for our national long distance services due to cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues decreased to 12% in 2009 from 13% in 2008.

Data and Other Network Services

The following table shows information of our data and other network service revenues for the years ended December 31, 2009 and 2008:

	2009	2008	Increase Amount	%
Data and other network service revenues (in millions)	Php 21,567	Php 18,607	Php 2,960	16
Number of *DSL* broadband subscribers	559,664	432,583	127,081	29

In 2009, our data and other network services posted revenues of Php21,567 million, an increase of Php2,960 million, or 16%, as compared with Php18,607 million in 2008 primarily due to increases in leased lines, IP-based and packet-based data services, particularly global data connectivity and *PLDT DSL*; partially offset by a decrease in *PLDT Vibe* subscribers. The percentage contribution of this service segment to our fixed line service revenues increased to 42% in 2009 from 38% in 2008.

PLDT DSL contributed revenues of Php7,024 million in 2009, an increase of Php1,664 million, or 31%, as compared with Php5,360 million in 2008 primarily due to an increase in the number of subscribers, which was partially offset by lower ARPU as a result of launching of lower-priced promotional plans. PLDT DSL subscribers increased by 29% to 559,664 subscribers in 2009 from 432,583 subscribers in 2008.

See Item 4 Information on the Company Business Fixed Line Data and Other Network Services for further information on our data and other network services.

Our *PLDT WeRoam* broadband service, using the PLDT Group s nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies) had 17,023 subscribers in 2009 as compared with 16,243 subscribers in 2008 and contributed Php208 million to our data service revenues in 2009, increasing by Php5 million, or 2%, as compared with Php203 million in 2008.

The continued growth in our data services revenues can be attributed to the consistent growth of the global data business and domestic data business categories as a result of the steady demand for dedicated international connectivity or private networking from the corporate market, offshore and outsourcing industries, and semiconductor market using PLDT s extensive international alliances and domestic data offerings Fibernet, Arcstar, other Global Service Providers such as BT-Infonet, Orange Business and Verizon; ISDN has also been increasingly popular with corporate customers, especially the Primary Rate Interface type, I-Gate. International data service revenues increased by Php724 million, or 16%, to Php5,176 million in 2009 from Php4,452 million in 2008 primarily due to an increase in I-Gate revenues by Php605 million, or 55%, to Php1,699 million in 2009 from Php1,094 million in 2008 as a result of Smart s higher usage and monthly recurring charges.

Domestic data services contributed Php16,391 million in 2009, an increase of Php2,236 million, or 16%, as compared with Php14,155 million in 2008. Growth was driven by the continued increase in DSL subscribers, and IP-VPN and Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers, as demand from the offshoring and outsourcing segment continues to increase.

Diginet, our domestic private leased line service, has been providing Smart s increasing fiber optic and leased line data requirements. Diginet revenues increased by Php481 million, or 7%, to Php7,697 million in 2009 from Php7,216 million in 2008 mainly due to an increase in Smart s domestic fiber optic network, or DFON, rental to Php5,847 million in 2009 from Php5,444 million in 2008.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. In 2009, these service revenues increased by Php202 million, or 14%, to Php1,668 million from Php1,466 million in 2008 mainly due to an increase in facilities management fees and rental income owing to higher co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of 2009 and 2008.

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Non-service Revenues

Non-service revenues decreased by Php187 million, or 45%, to Php233 million in 2009 from Php420 million in 2008 primarily due to lower computer sales and a decrease in the cost of fixed wireless service handsets.

Expenses

Expenses related to our fixed line business totaled Php39,081 million in 2009, an increase of Php3,348 million, or 9%, as compared with Php35,733 million in 2008. The increase was primarily due to higher asset impairment, compensation and employee benefits, professional and other contracted services, and rent, which were partly offset by decreases in repairs and maintenance, depreciation and amortization, selling and promotions expenses, cost of sales, and other business-related expenses. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 76% and 72% in 2009 and 2008, respectively.

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

							Increase (Decrease)	
		2009	**%**		**2008**	**%**	**Amount**	**%**
					(in millions)			
Fixed Line Services:								
Depreciation and amortization	Php	11,619	30	Php	11,901	33	Php (282)	(2)
Compensation and employee benefits[1]		10,637	27		9,093	25	1,544	17
Repairs and maintenance		4,345	11		4,634	13	(289)	(6)
Asset impairment		2,901	8		888	3	2,013	227
Rent		2,749	7		2,492	7	257	10
Professional and other contracted services		2,485	6		2,143	6	342	16
Selling and promotions		1,590	4		1,715	5	(125)	(7)
Taxes and licenses		755	2		769	2	(14)	(2)
Communication, training and travel		658	2		608	2	50	8
Insurance and security services		488	1		487	1	1	
Cost of sales		310	1		356	1	(46)	(13)
Provisions					1		(1)	(100)
Other expenses		544	1		646	2	(102)	(16)
Total	Php	39,081	100	Php	35,733	100	Php 3,348	9

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

Depreciation and amortization charges decreased by Php282 million, or 2%, to Php11,619 million due to a lower depreciable asset base in 2009 as compared with 2008.

Compensation and employee benefits expenses increased by Php1,544 million, or 17%, to Php10,637 million primarily due to increased salaries and employee benefits due to an increase in headcount resulting from the acquisition of Philcom and the transfer of Smart s corporate business group to PLDT, and higher provisions for pension costs and LTIP. For further discussion on our LTIP and pension benefits, please see *Note 25 Share-based Payments and Employee Benefits* of the accompanying consolidated financial statements in Item 18.

Repairs and maintenance expenses decreased by Php289 million, or 6%, to Php4,345 million primarily due to lower maintenance costs of IT software and domestic cable and wire facilities as less operating and maintenance-related restorations were incurred in 2009 as compared with 2008.

Asset impairment increased by Php2,013 million, or 227%, to Php2,901 million mainly due to impairment loss on the prepaid transponder lease payment to ProtoStar and provision for uncollectible customer receivables. Please see *Note 18 Prepayments* and *Note 26 Contractual Obligations and Commercial Commitments* to the accompanying consolidated financial statements in Item 18 for the discussion of the prepaid transponder lease to ProtoStar.

Rent expenses increased by Php257 million, or 10%, to Php2,749 million due to an increase in international leased circuit charges and satellite link rental charges, partially offset by a decrease in site rental charges.

Professional and other contracted services increased by Php342 million, or 16%, to Php2,485 million primarily due to higher technical and contracted service fees for customer interaction solutions outsourcing project services.

Selling and promotion expenses decreased by Php125 million, or 7%, to Php1,590 million primarily due to lower spending on marketing and promotion expenses as a result of curtailment on major advertising campaigns in 2009.

Taxes and licenses decreased by Php14 million, or 2%, to Php755 million as a result of lower business-related taxes.

Communication, training and travel expenses increased by Php50 million, or 8%, to Php658 million due to increases in foreign travel and local training expenses, higher mailing and courier and communication charges.

Insurance and security services increased by Php1 million to Php488 million primarily due to higher security services.

Cost of sales decreased by Php46 million, or 13%, to Php310 million due to lower computer-bundled sales in relation to our DSL promotion and *WeRoam* subscriptions.

Other expenses decreased by Php102 million, or 16%, to Php544 million due to decreases in various business and fixed line operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our total fixed line-related other expenses for the years ended December 31, 2009 and 2008:

	2009		2008		Change Amount	%
			(in millions)			
Other Income (Expenses):						
Foreign exchange gains (losses) net	Php	532	Php	(4,513)	Php 5,045	112
Interest income		402		448	(46)	(10)
Equity share in net losses of joint ventures		(98)		(74)	(24)	32
Gains (losses) on derivative financial instruments net		(2,180)		3,444	(5,624)	(163)
Financing costs net		(3,796)		(3,903)	107	(3)
Others		970		1,425	(455)	(32)
Total	Php	(4,170)	Php	(3,173)	Php (997)	31

Our fixed line business segment s other expenses net amounted to Php4,170 million in 2009, an increase of Php997 million, or 31%, as compared with Php3,173 million in 2008. The change was due to the combined effects of the following: (i) net losses on derivative financial instruments of Php2,180 million in 2009 as against net gains on derivative financial instruments of Php3,444 million in 2008 due to the loss on mark-to-market valuation of foreign currency swaps contracts; (ii) decrease in other income by Php455 million primarily due to lower gain on sale of fixed assets partially offset by the gain on fair value adjustment of investment properties; (iii) net foreign exchange gains of Php532 million on account of gain on foreign exchange revaluation of net foreign currency-denominated liabilities owing to the appreciation of the Philippine peso to the U.S. dollar to Php46.43 as at December 31, 2009 from Php47.65 as at December 31, 2008 as against net foreign exchange losses of Php4,513 million due to the revaluation of net foreign currency-denominated liabilities on account of the depreciation of the Philippine peso to the U.S. dollar to Php47.65 as at December 31, 2008 from Php41.41 as at December 31, 2007; and (iv) a decrease in net financing costs by Php107 million due to lower premium payment in relation with the buyback of bonds in 2009 as compared with 2008 and higher capitalized interest partly offset by higher financing charges.

Provision for Income Tax

Provision for income tax amounted to Php2,258 million, a decrease of Php790 million, or 26%, in 2009 as compared with Php3,048 million in 2008 primarily due to lower taxable income and the reduction in the regular corporate income tax rate from 35% to 30% beginning January 2009.

Net Income

In 2009, our fixed line business segment contributed a net income of Php5,864 million, a decrease of Php1,868 million, or 24%, as compared with Php7,732 million in 2008 primarily as a result of increases in fixed line-related expenses by Php3,348 million mainly due to the impairment loss on the prepaid transponder lease to ProtoStar, increases in compensation and employee benefits, increases in other expenses net by Php997 million, and a decrease in non-service revenues of Php187 million. The increase in fixed line-related expenses was partially offset by an increase in fixed line service revenues by Php1,874 million and a lower provision for income tax by Php790 million.

Information and Communications Technology

Revenues

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

In 2009, our ICT business generated revenues of Php11,549 million, an increase of Php566 million, or 5%, as compared with Php10,983 million in 2008. This increase was primarily due to the continued growth of our data center service revenues and our internet and online gaming businesses, partially offset by decreases in the revenue contribution of our customer interaction solutions and knowledge processing solutions businesses.

The following table summarizes our total revenues from our ICT business for the years ended December 31, 2009 and 2008 by service segment:

						Increase (Decrease)		
		2009	%		2008	%		Amount	%
				(in millions)					
Service Revenues:									
Knowledge processing solutions	Php	5,215	45	Php	5,272	48	Php	(57)	(1)
Customer interaction solutions		3,319	29		3,402	31		(83)	(2)
Internet and online gaming		1,113	10		976	9		137	14
Data center and others		1,284	11		767	7		517	67
		10,931	95		10,417	95		514	5
Non-Service Revenues:									
Point-product sales		618	5		566	5		52	9
Total ICT Revenues	Php	11,549	100	Php	10,983	100	Php	566	5

Service Revenues

Service revenues generated by our ICT business segment amounted to Php10,931 million in 2009, an increase of Php514 million, or 5%, as compared with Php10,417 million in 2008 primarily as a result of an increase in co-location revenues and disaster recovery revenues from our data center business complemented by the growth in our internet and online gaming business. Furthermore, the depreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar in 2009 complemented the increase in ICT business revenues. This was partially offset by the decline in revenues from our knowledge processing solutions and customer interaction solutions. As a percentage of our total ICT business revenues, service revenues remained stable at 95% in 2009 and 2008.

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Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. Knowledge processing solutions business contributed revenues of Php5,215 million in 2009, a decrease of Php57 million, or 1%, as compared with Php5,272 million in 2008 primarily due to lower revenues contributed by SPi s healthcare and litigation services. Knowledge processing solutions accounted for 48% and 51% of total service revenues of our ICT business in 2009 and 2008, respectively.

Customer Interaction Solutions

We provide our customer interaction solutions primarily through *ePLDT Ventus*. Revenues relating to our customer interaction solutions business decreased by Php83 million, or 2%, to Php3,319 million in 2009 from Php3,402 million in 2008 primarily due to the decrease in international dollar-denominated revenues as a result of termination of contracts with certain international clients and shrinkage from existing programs, partially offset by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar and an increase in domestic revenues. In total, we own and operate approximately 7,140 seats with 5,190 customer service representatives, or CSRs, in 2009 as compared with approximately 6,580 seats with 5,800 CSRs in 2008. As at December 31, 2009 and 2008, *ePLDT Ventus* had seven customer interaction solution sites. Customer interaction solution revenues accounted for 30% and 33% of total service revenues of our ICT business in 2009 and 2008, respectively.

Internet and Online Gaming

Revenues from our internet and online gaming businesses increased by Php137 million, or 14%, to Php1,113 million in 2009 from Php976 million in 2008 primarily due to an increase in the revenue contribution of Level Up! resulting from its new online games and Infocom s revenues from handling PLDT s DSL-related nationwide technical helpdesk operations. Our internet and online gaming business revenues accounted for 10% and 9% of total service revenues of our ICT business in 2009 and 2008, respectively.

Data Center and Others

ePLDT operates an internet data center under the brand name *Vitro*ä, which provides co-location or rental services, server hosting, data disaster recovery and business continuity services, intrusion detection, security services such as firewalls and managed firewalls and other data services. In 2009, our data center contributed revenues of Php1,284 million, an increase of Php517 million, or 67%, from Php767 million in 2008 primarily due to an increase in demand for our co-location or rental services and server hosting services. Our data center revenues accounted for 12% and 7% of total service revenues of our ICT business in 2009 and 2008, respectively.

Non-Service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In 2009, non-service revenues generated by our ICT business increased by Php52 million, or 9%, to Php618 million from Php566 million in 2008 primarily due to higher revenues from sales of software licenses.

In 2009, ePLDT acquired majority equity interest in BayanTrade, Inc., a leading licensed software reseller in the Philippines.

Expenses

Expenses associated with our ICT business totaled Php11,289 million in 2009, a decrease of Php1,978 million, or 15%, as compared with Php13,267 million in 2008 primarily due to lower asset impairment, professional and other contracted services, selling and promotions expenses, depreciation and amortization, and communication, training and travel expenses, partially offset by increases in compensation and employee benefits, cost of sales, and repairs and maintenance. As a percentage of our total ICT revenues, expenses related to our ICT business accounted for 98% and 121% in 2009 and 2008, respectively.

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

	2009	%	2008	%	Increase (Decrease) Amount	%
			(in millions)			
ICT Services:						
Compensation and employee benefits[1]	Php 6,418	57	Php 6,131	46	Php 287	5
Cost of sales	799	7	660	5	139	21
Depreciation and amortization	751	7	833	6	(82)	(10)
Rent	716	6	665	5	51	8
Repairs and maintenance	669	6	573	4	96	17
Professional and other contracted services	592	5	747	6	(155)	(21)
Communication, training and travel	500	4	573	4	(73)	(13)
Amortization of intangible assets	242	2	244	2	(2)	(1)
Asset impairment	134	1	2,286	17	(2,152)	(94)
Selling and promotions	113	1	203	2	(90)	(44)
Taxes and licenses	104	1	98	1	6	6
Insurance and security services	68	1	61		7	11
Other expenses	183	2	193	2	(10)	(5)
Total	Php 11,289	100	Php 13,267	100	Php (1,978)	(15)

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

Compensation and employee benefits increased by Php287 million, or 5%, to Php6,418 million mainly due to basic pay increases as a result of salary rate adjustments, as well as an increase in MRP costs and provisions for LTIP partially offset by the decrease in ePLDT and subsidiaries employee headcount by 908, or 6%, to 15,581 in 2009 as compared with 16,489 in 2008.

Cost of sales increased by Php139 million, or 21%, to Php799 million primarily due to higher volume of sales of software licenses and hardware products.

Depreciation and amortization charges decreased by Php82 million, or 10%, to Php751 million primarily due to a decrease in the depreciable asset base of our knowledge processing solutions business on account of lower capital expenditures in 2009 as compared with 2008.

Rent expenses increased by Php51 million, or 8%, to Php716 million primarily due to higher office building and site rental charges.

Repairs and maintenance expenses increased by Php96 million, or 17%, to Php669 million primarily due to higher building, site, IT software and hardware repairs and maintenance costs as a result of data center expansion, and higher electricity charges.

Professional and other contracted services decreased by Php155 million, or 21%, to Php592 million primarily due to lower technical service and subcontracted service fees incurred by the SPi Group related to its knowledge processing solutions business.

Communication, training and travel expenses decreased by Php73 million, or 13%, to Php500 million primarily due to lower local and foreign training and travel expenses incurred by our customer interaction solutions and knowledge processing solutions businesses.

Amortization of intangible assets decreased by Php2 million, or 1%, to Php242 million due to lower foreign exchange rate in 2009. Please see *Note 14 Goodwill and Intangible Assets* of the accompanying consolidated financial statements in Item 18 for further discussion.

Asset impairment decreased by Php2,152 million, or 94%, to Php134 million primarily due to lower impairment on goodwill and other intangibles from the investment in SPi and Level Up! in 2009 as compared with 2008.

Selling and promotion expenses decreased by Php90 million, or 44%, to Php113 million mainly due to the SPi Group s lower commission, advertising and marketing expenses.

Taxes and licenses increased by Php6 million, or 6%, to Php104 million primarily due to higher business-related taxes.

Insurance and security services increased by Php7 million, or 11%, to Php68 million primarily due to higher security services.

Other expenses decreased by Php10 million, or 5%, to Php183 million mainly due to lower various business and ICT operational-related costs.

Other Income (Expense)

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

	2009		2008		Change Amount		%
			(in millions)				
Other Income (Expenses):							
Equity share in net earnings of associates	Php	168	Php	17	Php	151	888
Interest income		28		22		6	27
Gains (losses) on derivative financial instruments net		8		(59)		67	114
Foreign exchange gains (losses) net		(12)		93		(105)	(113)
Financing costs net		(171)		(172)		1	(1)
Others		195		98		97	99
Total	Php	216	Php	(1)	Php	217	21,700

Our ICT business segment generated other income net of Php216 million in 2009, an increase of Php217 million as against other expenses net of Php1 million in 2008 primarily due to the combined effects of the following: (i) an increase in equity share in net earnings of associates by Php151 million; (ii) an increase in other income by Php97 million on account of the de-recognition of liabilities; (iii) net gains on forward foreign exchange contracts by Php67 million; and (iv) net foreign exchange losses of Php105 million due to the revaluation of net foreign currency-denominated assets as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar in 2009.

Benefit from Income Tax

Benefit from income tax decreased by Php71 million, or 72%, to Php28 million in 2009 from Php99 million in 2008 primarily due to a higher taxable income and expiration of tax incentives.

Net Income (Loss)

In 2009, our ICT business segment registered a net income of Php504 million, an improvement of Php2,690 million, or 123%, from a net loss of Php2,186 million in 2008 mainly as a result of Php566 million increase in ICT revenues, other income net of Php217 million and Php1,978 million decrease in ICT-related expenses partially offset by lower benefit from income tax of Php71 million.

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.

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

	2008	%	2007	%	Change 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
Consolidated	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 consolidated revenues, consolidated expenses decreased to 59% in 2008 from 60% in 2007.

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

	2008	%	2007	%	Change Amount	%
			(in millions)			
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
Consolidated	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 Php41.41 as at December 31, 2007 to Php47.65 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 consolidated other income (expenses) for the years ended December 31, 2008 and 2007 by business segment:

	2008	%	2007	%	Change Amount	%
			(in millions)			
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
Consolidated	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.

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)
Consolidated	Php 34,976	100	Php 39,274	100	Php (4,298)	(11)

On A Business Segment Basis

Wireless

Revenues

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	%	Increase (Decrease) Amount	%
			(in millions)			
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 due to multiple SIM card ownership especially in the lower income segment of the Philippine wireless market, in which subscribers subscribe to our services in addition to having subscriber arrangements with other wireless operators, 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 Php46.18 in 2007 to Php44.47 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.

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

	2008	2007	Increase Amount	%
		(in millions)		
Cellular service revenues	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	37,275	36,105	1,110	3
Data	47,804	44,092	3,712	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.

	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 Buddy	*20,501,617*	*19,997,324*	*504,293*	*3*
Talk N Text	*14,308,493*	*9,701,826*	*4,606,667*	*47*
Red Mobile (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 Php1,170 million, or 3%, to Php37,275 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 Php46.18 in 2007 to Php44.47 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 Php3,712 million, or 8%, to Php47,804 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.

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				

(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 Php45,285 million in 2008, an increase of Php4,020 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 Php26,461 million in 2008, an increase of Php6,320 million, or 31%, compared with Php20,141 million in 2007. On the other hand, standard text messaging revenues declined by Php2,273 million, or 12%, to Php17,016 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 Php2,474 million in 2008, decreased by Php274 million, or 10%, 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.

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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 Buddy	504,293	3,114,882	(2,610,589)	(84)
Talk N Text	4,606,667	2,727,447	1,879,220	69
Red Mobile	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 Buddy	*282,044*	*130,697*	*111,487*	*(3,577)*	*880,281*	*1,050,678*	*763,257*	*420,666*
Talk N Text	*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 Buddy	Php 290	Php 312	Php (22)	(7)	Php 230	Php 254	Php (24)	(9)
Talk N Text	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 Buddy and Talk N Text.

(4) *The average monthly ARPU of all prepaid and postpaid cellular subscribers.*

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 Buddy		Talk N Text		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 Php46.18 in 2007 to Php44.47 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.

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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.

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 and the percentage of each expense item to the total for the years ended December 31, 2008 and 2007:

	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.

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 25 Share-based Payments and Employee Benefits* to the accompanying 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 14 Goodwill and Intangible Assets* to the accompanying consolidated financial statements in Item 18.

Provisions of Php897 million pertained to provisions for assessments. Please see *Note 27 Provisions and Contingencies* to the accompanying 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:

					Change	
	2008		**2007**		**Amount**	**%**
			(in millions)			
Other Income (Expenses):						
Interest income	Php	1,197	Php	1,186	Php 11	1
Equity share in net losses of associates		(119)			(119)	(100)
(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		323		763	(440)	(58)
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 Php41.41 as at December 31, 2007 to Php47.65 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.

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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.

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 by service segment:

							Increase (Decrease)		
		2008	**%**		**2007**	**%**		**Amount**	**%**
					(in millions)				
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:

					Increase (Decrease)		
		2008		**2007**		**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 for residential and Php1,000 with 1,000 local minutes free for business subscribers. 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 Php44.47 in 2008 from Php46.18 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 Php44.47 in 2008 from Php46.18 in 2007, which adversely affected our U.S. dollar and U.S. dollar-linked revenues, resulting in a decrease in the average billing rates to Php43.95 in 2008 from Php46.79 in 2007 partially offset by an increase in average revenue per minute as a result of a higher average collection rate.

National Long Distance Service

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

	2008	2007	Decrease Amount	%

Total national long distance service revenues (in millions)	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.

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 and the percentage of each expense item to the total for the years ended December 31, 2008 and 2007:

					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 25   Share-based Payments and Employee Benefits* to the accompanying 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.

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 27 Provisions and Contingencies* to the accompanying 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:

					Change	
		2008		**2007**	**Amount**	**%**
			(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
Equity share in net losses of joint ventures		(74)			(74)	(100)
Financing costs		(3,903)		(4,657)	754	16
Foreign exchange (losses) gains net		(4,513)		5,479	(9,992)	(182)
Others		1,425		2,153	(728)	(34)
	Php	(3,173)	Php	(64)	Php 3,109	4,858

Our fixed line business segment s other expenses amounted to Php3,173 million in 2008, an increase of Php3,109 million as compared with Php64 million in 2007. The increase 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 from Php41.41 as at December 31, 2007 to Php47.65 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.

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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.

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 ICT-related expenses and the percentage of each expense item to the total for the years ended December 31, 2008 and 2007:

							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 14 Goodwill and Intangible Assets* to the accompanying 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 Php41.41 as at December 31, 2007 to Php47.65 as at December 31, 2008. Please see *Note 14 Goodwill and Intangible Assets* to the accompanying 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
Equity share in net earnings of associates		17		(11)		28	255
(Loss) gains on derivative transactions net		(59)		138		(197)	(143)
Financing costs		(172)		(132)		(40)	30
Others		98		594		(496)	(84)
Total	Php	(1)	Php	472	Php	(473)	(100)

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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.

Plans and Prospects

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

For 2010, we expect that cash from operations should enable us to increase the level of our capital expenditures for the continued expansion and upgrading of our network infrastructure. We expect to make additional investments in our core facilities to maximize existing technologies and increase capacity to accommodate expected continued increases in call and text volumes as a result of unlimited voice and text offerings and other promotions. Our 2010 budget for consolidated capital expenditures is approximately Php28.6 billion, of which approximately Php16.4 billion is budgeted to be spent by Smart, approximately Php10.8 billion is budgeted to be spent by PLDT and the balance represents the budgeted capital spending of our other subsidiaries. Our acquisition in 2009 of a stake in Meralco constitutes a strategic investment for us that could lead to significant opportunities for operational and business synergies and result in new revenue streams and cost savings for both organizations. The PLDT Group and Meralco have a number of compatible network business infrastructure elements, such as fiber optic backbones, power pole network and business offices, and we expect that these could be optimized to generate cost savings for both entities. Backroom assets in IT and data management can potentially also be pooled, consolidated and maximized such that both companies benefit from cost savings and utilize each other s strengths. Other areas for possible collaboration are in easements and rights of way, bill statement printing and enveloping, general procurement and advertising efforts.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2009, 2008 and 2007 as well as our consolidated capitalization and other consolidated selected financial data as at December 31, 2009 and 2008:

	2009	2008	2007
		(in millions)	
Cash Flows			
Net cash provided by operating activities	Php 74,386	Php 78,302	Php 77,418
Net cash used in investing activities	49,132	17,014	31,319
Capital expenditures	*28,069*	*25,203*	*24,824*
Net cash used in financing activities	20,293	45,464	44,819
Net increase in cash and cash equivalents	4,635	16,237	577

	2009	2008
	(in millions)	
Capitalization		
Interest-bearing financial liabilities:		
Long-term portion of financial liabilities:		
Long-term debt	Php 86,066	Php 58,899
Obligations under finance lease	13	11
	86,079	58,910
Current portion of interest-bearing financial liabilities:		
Notes payable	2,279	553
Long-term debt maturing within one year	10,384	14,459
Obligations under finance lease maturing within one year	51	59
Preferred stock subject to mandatory redemption		9
	12,714	15,080
Total interest-bearing financial liabilities	98,793	73,990
Total equity	98,575	105,531
	Php 197,368	Php 179,521
Other Selected Financial Data		
Total assets	Php 280,148	Php 252,558
Property, plant and equipment - net	161,256	160,326
Cash and cash equivalents	38,319	33,684
Short-term investments	3,824	6,670

As at December 31, 2009, our consolidated cash and cash equivalents and short-term investments totaled Php42,143 million. Principal sources of consolidated cash and cash equivalents in 2009 were cash flows from operating activities amounting to Php74,386 million and drawings mainly from PLDT s and Smart s debt facilities, including notes payable, aggregating Php43,989 million and net proceeds from maturity of short-term investments of Php2,890 million. These funds were used principally for: (1) dividend payments of Php39,286 million; (2) payments for purchase of investments in subsidiaries and associates of Php27,059 million, including Piltel s acquisition of Meralco shares of Php18,070 million and settlement of the tender offer to Piltel s non-controlling interests of

Php6,618 million; (3) capital outlays of Php28,069 million; (4) total debt principal and interest payments of Php19,228 million and Php5,239 million, respectively; (5) payment for an exchangeable note issued by First Pacific Utilities Corporation, or FPUC, to Piltel (including derivative option) of Php2,000 million; and (6) a buyback of shares of PLDT of Php1,752 million.

As at December 31, 2008, our consolidated cash and cash equivalents and short-term investments totaled Php40,354 million. Principal sources of consolidated cash and cash equivalents in 2008 and 2007 were: (1) cash flows from operations amounting to Php78,302 million in 2008 and Php77,418 million in 2007; (2) drawings from long-term and short-term credit facilities totaling Php17,912 million and Php660 million, respectively, in 2008, and Php7,647 million and Php502 million, respectively, in 2007; and (3) equity funds raised through the issuance of capital stock amounting to Php8 in 2008 and Php76 million in 2007. In 2008, these funds were used principally for: (1) dividend payments of Php37,124 million; (2) capital outlays of Php25,203 million; (3) payments of long-term and short-term debt totaling Php14,053 million; (4) share buyback of Php5,281 million; and (5) interest payments of Php5,167 million; and in 2007, the funds were used principally for: (1) payments of long-term and short-term debt totaling Php18,258 million; (2) capital outlays of Php24,824 million; and (3) interest payments of Php5,891 million.

Operating Activities

Our consolidated net cash flows from operating activities in 2009 decreased by Php3,916 million, or 5%, to Php74,386 million from Php78,302 million in 2008 primarily due to higher pension contributions made to the beneficial trust fund partially offset by lower other working capital requirements. Net cash flows from operating activities in 2008 increased by Php884 million, or 1%, from Php77,418 million in 2007.

A growing portion of our consolidated cash flow from operating activities is generated by our wireless service business, which accounted for 61% of our total service revenues in each of 2009 and 2008 and 60% in 2007. Revenues from our fixed line and ICT businesses accounted for 32% and 7%, respectively, of our total service revenues in each of 2009 and 2008 and 33% and 7%, respectively, in 2007.

Cash flows from operating activities of our wireless business amounted to Php55,058 million in 2009, an increase of Php12,278 million, or 29%, as compared with Php42,780 million in 2008. The increase in our wireless business segment s cash flows from operating activities was primarily a result of lower prepayments of leased circuits, higher collection of receivables, and higher level of various current liabilities in 2009 compared with 2008. On the other hand, cash flows from operating activities of our ICT business decreased by Php329 million, or 19%, to Php1,423 million in 2009 from Php1,752 million in 2008 mainly due to higher working capital requirements in 2009. Cash flows from operating activities of our fixed line business decreased by Php15,884 million, or 47%, to Php17,910 million in 2009 from Php33,794 million in 2008 primarily due to lower level of advance payments received from various customers, higher pension contributions made to the beneficial trust fund and lower collection of accounts receivable.

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

In 2009 and 2008, dividend payments received by PLDT from Smart amounted to Php37,440 million and Php24,200 million, respectively. Of the Php37,440 million declared in 2009, Php14,800 million and Php5,640 million were paid on April 13, 2009 and September 11, 2009, respectively, and Php17,000 million will be paid on April 6, 2010, while of the Php24,200 million declared in 2008, Php10,000 million, Php7,200 million and Php7,000 million were paid on April 11, 2008, September 3, 2008 and September 18, 2008, respectively.

In 2009 and 2008, Piltel paid cash dividends to common shareholders amounting to Php6,077 million and Php5,061 million, of which Php5,640 million and Php4,664 million, respectively, was paid to Smart. In 2007, Piltel paid cash dividends to various preferred shareholders in the aggregate amount of Php2,943 million, of which Php2,930 million was paid to PLDT.

Investing Activities

Consolidated net cash used in investing activities amounted to Php49,132 million in 2009, an increase of Php32,118 million, or 189%, as compared with Php17,014 million in 2008. This increase was primarily due to the combined effects of the following: (1) higher payments for investments in subsidiaries and associates by Php26,303 million mainly due to Piltel s acquisition of Meralco shares amounting to Php18,070 million and the settlement of the tender offer to Piltel s non-controlling shareholders of Php6,618 million; (2) lower net proceeds from the maturity of short-term investments by Php4,514 million; (3) an increase in capital expenditures by Php2,866 million in 2009; and (4) higher net proceeds from the maturity of investments in debt securities by Php1,214 million, mainly from net redemption of various treasury bonds of Php2,651 million partially offset by the payment of Php1,437 million for the purchase of an exchangeable note with face value of Php2,000 million issued by FPUC to

Piltel as part of the Meralco shares acquisition transaction.

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

Our consolidated capital expenditures in 2009 totaled Php28,069 million, an increase of Php2,866 million, or 11%, as compared with Php25,203 million in 2008 primarily due to an increase in PLDT s capital spending. PLDT s capital spending of Php10,991 million in 2009 was principally used to finance the expansion and upgrade of its submarine cable facilities, fixed line data and IP-based network services and outside plant rehabilitation. Smart s capital spending of Php16,247 million in 2009 was used primarily to expand its HSPA 850 and broadband networks, and to further upgrade its core, access and transmission network facilities. ePLDT and its subsidiaries capital spending of Php729 million in 2009 was primarily used to fund the continued expansion of its customer interaction solutions facilities. The balance represented other subsidiaries capital spending.

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

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

On July 14, 2009, Piltel completed its acquisition of 223 million shares in Meralco for a cash consideration of Php18.07 billion for the purchase of approximately 200.8 million shares and the conversion into approximately 22.2 million shares of an exchangeable note issued by FPUC with a market value, including its derivative option, of Php3,286 million. Thus, the investment in 223 million shares in Meralco was recorded at Php21,356 million and a gain of Php1,286 million was recognized on the exchangeable note representing the mark-to-market gains of Php1,170 million from the derivative option and the amortization of the note s discount of Php116 million. Please see Item 4. Information on the Company Historical Background and Development and *Note 10 Investments in Associates and Joint Ventures* of the accompanying consolidated financial statements in Item 18 for further information on the acquisition of Meralco shares.

In view of the change in Piltel s business direction upon the acquisition of Meralco shares, Smart s Board of Directors approved a tender offer to acquire the approximately 840 million shares from Piltel s non-controlling shareholders (representing approximately 7.19% of the outstanding shares of Piltel) at Php8.50 per share payable entirely in cash on August 12, 2009. Approximately 93% of Piltel s non-controlling shares tendered and Smart paid Php6,618 million to tendering shareholders on August 12, 2009, thereby increasing its ownership in Piltel to approximately 99.5% of Piltel s outstanding common stock. Smart recognized an excess of acquisition cost over the carrying value of non-controlling interests acquired of Php5,479 million presented as part of capital in excess of par value account under Equity in our consolidated statements of financial position. Please see *Note 2 Summary of Significant Accounting Policies* and *Note 13 Business Combinations and Acquisition of Non-Controlling Interest* to the accompanying consolidated financial statements in Item 18 for further discussion.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php20,293 million in 2009, a decrease of Php25,171 million, or 55%, as compared with Php45,464 million in 2008. The decrease in net cash used in financing activities in 2009 resulted largely from the combined effects of the following: (1) higher proceeds from the issuance of long-term debt and notes payable by Php25,417 million; (2) lower buyback of shares of PLDT in 2009 by Php3,529 million; (3) higher net proceeds from capital expenditures under long-term financing by Php2,220 million;

(4) lower settlement of finance lease obligation by Php450 million; (5) higher interest payments by Php72 million; (6) higher cash dividend payments by Php2,162 million; and (7) higher debt repayments by Php5,175 million. On a consolidated basis, we used net cash of Php45,464 million for financing activities in 2008, compared to Php44,819 million in 2007. The net cash used in financing activities in 2008 was mainly utilized for dividend payments distributed to PLDT common and preferred stockholders, debt repayments, interest payments and buyback of PLDT s common stock. In 2007, net cash used in financing activities was mainly utilized for dividend payments distributed to PLDT common and preferred stockholders, debt repayments and interest payments.

Debt Financing

Additions to our consolidated debt, including notes payable, for the years ended December 31, 2009 and 2008 totaled Php43,989 million and Php18,572 million, respectively, mainly from PLDT s and Smart s drawings related to the financing of our capital expenditure requirements and maturing loan obligations. Payments of principal and interest on our total debt amounted to Php19,228 million and Php5,239 million, respectively, in 2009 and Php14,053 million and Php5,167 million, respectively, in 2008.

Our consolidated long-term debt increased by Php23,092 million, or 31%, to Php96,450 million in 2009, largely due to drawings from our term loan facilities, partially offset by debt amortizations and prepayments and the appreciation of the Philippine peso relative to the U.S. dollar to Php46.43 as at December 31, 2009 from Php47.65 as at December 31, 2008 resulting in lower peso equivalents of our U.S. dollar-denominated debts. In 2009, the debt levels of PLDT and Smart increased by 38% and 26% to Php53,641 million and Php42,664 million, respectively, as at December 31, 2009 as compared with December 31, 2008.

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

On February 20, 2009, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated February 18, 2009, comprised of Series A five-year notes amounting to Php2,390 million, Series B seven-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,510 million. Proceeds from the facility were used to finance capital expenditures of PLDT. The aggregate amount of Php5,000 million remained outstanding as at December 31, 2009.

On February 20, 2009, Smart signed a Philippine Peso term loan facility with China Trust (Philippines) Commercial Bank Corporation to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on April 27, 2009. The facility is a five-year term loan payable in eight equal semi-annual installments starting on the eighteenth month from initial drawdown date. The first installment will commence on October 27, 2010 with final repayment on April 25, 2014. The entire amount of Php1,000 million (Php996 million, net of unamortized debt discount of Php4 million) remained outstanding as at December 31, 2009.

On March 6, 2009, PLDT signed a loan agreement with Banco de Oro Unibank, Inc. amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan will mature on April 17, 2014. The amount of Php2,500 million was fully drawn on April 17, 2009 and remained outstanding as at December 31, 2009.

On March 31, 2009, Level Up! secured a three-year loan facility with Asia United Bank amounting to Php8 million maturing on March 30, 2012. Principal is payable in twelve equal successive quarterly installment of Php673 thousand starting June 30, 2009 and every quarter thereafter. The loan is secured by the equipment where the proceeds of the loan were used. The amount of Php6 million remained outstanding as at December 31, 2009.

On April 23, 2009, PLDT signed a notes facility agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is comprised of a Php1,000 million Tranche A fixed rate note and a Php1,000 million Tranche B floating rate note, which were fully drawn on April 28, 2009 and remained outstanding as at December 31, 2009. Both tranches will mature on April 28, 2010.

On May 12, 2009, Smart signed a Philippine Peso term loan facility with Banco de Oro Unibank, Inc. amounting to Php1,500 million to finance capital expenditures. The amount of Php1,500 million (Php1,491 million, net of unamortized debt discount of Php9 million) was fully drawn on May 20, 2009 and remained outstanding as at December 31, 2009. The facility is a three-year loan payable in full upon maturity on May 20, 2012.

On May 14, 2009, Smart signed a Philippine Peso term loan facility with Asia United Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 3, 2009. The facility is payable over five years in eight equal semi-annual installments commencing on the eighteenth month from initial drawdown date with final repayment on July 3, 2014. The entire amount of Php1,000 million (Php996 million, net of unamortized debt discount of Php4 million) remained outstanding as at December 31, 2009.

On May 14, 2009, Smart signed a US$50 million five-year term facility to finance the Phase 10 (Extension) GSM equipment and services contract with Finnish Export Credit, Plc guaranteed by Finnvera and awarded to Calyon as the Arranger. The facility was drawn on July 15, 2009. The loan is payable over five years in ten equal semi-annual payments. As at December 31, 2009, US$50 million (US$48 million, net of unamortized debt discount of US$2 million), or Php2,321 million (Php2,240 million, net of unamortized debt discount of Php81 million), remained outstanding.

On May 15, 2009, Smart signed a Philippine Peso term loan facility with Philippine National Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 2, 2009. The facility is a seven-year loan, payable in full on July 2, 2016. The entire amount of Php1,000 million (Php995 million, net of unamortized debt discount of Php5 million) remained outstanding as at December 31, 2009.

On June 8, 2009, PLDT signed a loan agreement with Rizal Commercial Banking Corporation amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over seven years with an annual amortization of 1% on the fifth and sixth year from initial drawdown date and the balance payable on maturity date on September 28, 2016. The amount of Php2,500 million was fully drawn on September 28, 2009 and remained outstanding as at December 31, 2009.

On June 16, 2009, PLDT signed a loan agreement with Allied Banking Corporation amounting to Php1,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on September 15, 2014. The amount of Php1,500 million was fully drawn on September 15, 2009 and remained outstanding as at December 31, 2009.

On June 29, 2009, PLDT signed a loan agreement with Insular Life Assurance Company, Ltd. amounting to Php500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan will mature on July 1, 2016. The amount of Php500 million was fully drawn on July 1, 2009 and remained outstanding as at December 31, 2009.

On June 29, 2009, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php3,000 million to finance capital expenditures. The facility is comprised of Php1,000 million Series A1 note payable in full in 1.5 years and Php1,000 million each for Series B1 and B2 notes payable in full in two years. The aggregate amount of Php2,000 million of Series A1 and B1 notes were drawn on July 8, 2009 while the aggregate amount of Php1,000 million of Series B2 notes was drawn on September 1, 2009. The aggregate amount of Php3,000 million (Php2,988 million, net of unamortized debt discount of Php12 million) remained outstanding as at December 31, 2009.

On July 16, 2009, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on August 3, 2009. The facility is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown with final repayment on August 1, 2014. The entire amount of Php1,000 million (Php996 million, net of unamortized debt discount of Php4 million) remained outstanding as at December 31, 2009.

On September 18, 2009, PLDT signed a loan agreement with Bank of the Philippine Islands, amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on October 27, 2014. The initial drawdown under this loan was made on October 26, 2009 in the amount of Php1,000 million and the balance of Php1,000 million was subsequently drawn on December 4, 2009. As at December 31, 2009, the outstanding balance of the loan was Php2,000 million.

On October 9, 2009, Smart signed a US$50 million five-year term facility to finance GSM equipment and services contracts with Finnish Export Credit, Plc guaranteed by Finnvera, the Finnish Export Credit Agency, for 100% political and commercial risk cover. The facility was awarded to Citicorp as the Arranger. The loan is payable over five years in ten equal semi-annual payments. As at December 31, 2009, no amounts have been drawn under the facility.

On November 23, 2009, PLDT signed a loan agreement with Bank of the Philippine Islands amounting to Php1,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on December 18, 2014. The amount of Php1,000 million was fully drawn on December 18, 2009 and remained outstanding as at December 31, 2009.

On December 10, 2009, PLDT issued Php7,000 million fixed rate corporate notes under a Notes Facility Agreement dated December 8, 2009, comprised of Series A 5.25-year notes amounting to Php5,050 million, Series B seven-year notes amounting to Php850 million, and Series C ten-year notes amounting to Php1,100 million. Proceeds from the facility will be used to finance capital expenditures and/or refinance its loan obligations which were used to finance capital expenditures for network expansion and improvement. The aggregate amount of Php7,000 million remained outstanding as at December 31, 2009.

Approximately Php54,147 million principal amount of our consolidated outstanding long-term debt as at December 31, 2009 is scheduled to mature over the period from 2010 to 2013. Of this amount, Php29,826 million is attributable to Smart, Php24,177 million to PLDT, and the remainder to ePLDT.

For further details on our long-term debt, see *Note 20 Interest-bearing Financial Liabilities Long-term Debt* of the accompanying consolidated financial statements in Item 18.

Debt Covenants

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

Please see *Note 20 Interest-bearing Financial Liabilities Debt Covenants* of the accompanying consolidated financial statements in Item 18 for a detailed discussion of our debt covenants.

Financing Requirements

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

Consolidated cash dividend payments paid to shareholders in 2009, 2008 and 2007 amounted to Php39,286 million, Php37,124 million and Php28,470 million, respectively.

On August 4, 2009, we declared a regular cash dividend of Php77 per share and on March 2, 2010, we declared regular and special cash dividends of Php76 and Php65 per share, respectively, representing approximately 100% payout of our 2009 earnings per share on an adjusted basis (excluding asset impairment on noncurrent assets and gains/losses on foreign exchange revaluation and derivatives).

On August 5, 2008, we declared a regular cash dividend of Php70 per share and on March 3, 2009, we declared regular and special cash dividends of Php70 per share and Php60 per share, respectively, representing approximately 100% payout of our 2008 earnings per share on an adjusted basis (excluding asset impairment on noncurrent assets and gains/losses on foreign exchange revaluation and derivatives).

With respect to our 2007 earnings, in addition to the Php60 per share dividend declared on August 7, 2007, we declared on March 4, 2008 a regular cash dividend of Php68 per share and a special cash dividend of Php56 per share, in the aggregate representing close to a 100% payout of our 2007 earnings per share.

See Item 3 Key Information Dividends Declared and Dividends Paid for further information on our dividend payments.

Off-Statement of Financial Position Arrangements

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

Equity Financing

PLDT raised Php15 million and Php7 million from the exercise by certain officers and executives of stock options in 2009 and 2008, respectively. In addition, through our subscriber investment plan which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% Cumulative Convertible Preferred Stock as part of the upfront payments collected from subscribers, PLDT was able to raise Php3 million in 2009 and Php1 million in 2008 from this source.

As part of our goal to maximize returns to our shareholders, in 2008, we obtained board of directors approval for a share buyback program of up to five million shares of PLDT s common stock, representing approximately 3% of PLDT s total outstanding shares of common stock. As at December 31, 2009 and 2008, we had acquired a total of 2.7 million shares and 2.0 million shares, respectively, representing approximately 1% of PLDT s outstanding shares of common stock at a weighted average price of Php2,387 per share and Php2,521 per share, respectively, for a total consideration of Php6,405 million and Php4,973 million, respectively, in accordance with the share buyback program. The effect of the acquisition of shares of PLDT s common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for the years ended December 31, 2009 and 2008. In 2009, there were 186.8 million PLDT common shares outstanding compared with 187.5 million in 2008. Please see Item 16E Purchases of Equity Securities by the Issuer and Affiliated Purchaser and *Note 8 Earnings Per Common Share, Note 19 Equity* and *Note 28 Financial Assets and Liabilities* of the accompanying consolidated financial statements in Item 18 for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

The following table shows our consolidated contractual undiscounted obligations outstanding as at December 31, 2009:

	Payments Due by Period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in millions)		
December 31, 2009					
Debt(1):	*130,075*	*5,241*	*56,398*	*38,073*	*30,363*
Principal	102,587	4,876	40,226	31,953	25,532
Interest	27,488	365	16,172	6,120	4,831
Lease obligations:	*7,564*	*3,778*	*1,956*	*994*	*836*
Operating lease	7,497	3,730	1,940	991	836
Finance lease	67	48	16	3	
Unconditional purchase obligations(2)	*834*	*137*	*279*	*279*	*139*
Other obligations:	*64,456*	*44,322*	*15,528*	*826*	*3,780*
Derivative financial liabilities(3):	4,759		2,153	789	1,817
Long-term currency swaps	4,759		2,153	789	1,817
Various trade and other obligations:	59,697	44,322	13,375	37	1,963
Suppliers and contractors	26,941	14,975	11,966		
Utilities and related expenses	14,737	14,687	18	5	27
Employee benefits	8,082	8,082			
Customers deposits	2,166		198	32	1,936

Carriers	1,937	1,937			
Dividends	1,749	1,749			
Others	4,085	2,892	1,193		
Total contractual obligations	**202,929**	**53,478**	**74,161**	**40,172**	**35,118**

(1) *Consist of notes payable and long-term debt, including current portion; gross of unamortized debt discount and debt issuance costs.*

(2) *Based on the Amended ATPA with AIL.*

(3) *Gross liabilities before any offsetting application.*

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For a detailed discussion of our contractual obligations, please see *Note 26 Contractual Obligations and Commercial Commitments* to the accompanying consolidated financial statements in Item 18.

Commercial Commitments

As at December 31, 2009 and 2008, our outstanding commercial commitments, in the form of letters of credit, amounted to Php1,317 million and Php1,634 million, respectively. These commitments will expire within one year.

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines in 2009 was 3.2% as compared with 9.3% in 2008. Moving forward, we expect inflation to increase, which may have an adverse impact on our operations.

Please see Item 11. Quantitative and Qualitative Disclosures about Market Risks Foreign Currency Exchange Risk for a description of the impact of foreign currency fluctuations on us.

Item 6. Directors, Senior Management and Employees

Directors, Key Officers and Advisors

The name, age and period of service, of each of the current directors, including independent directors, of PLDT are as follows:

Name	Age	Period during which individual has served as such
Manuel V. Pangilinan	63	November 24, 1998 to present
Napoleon L. Nazareno	60	November 24, 1998 to present
Donald G. Dee	63	September 30, 2008 to present
Helen Y. Dee	66	June 18, 1986 to present
Ray C. Espinosa	54	November 24, 1998 to present
Tatsu Kono	57	March 28, 2006 to present
Rev. Fr. Bienvenido F. Nebres, S.J.*	70	November 24, 1998 to present
Takashi Ooi	48	November 6, 2007 to present
Oscar S. Reyes*	64	April 5, 2005 to present
Albert F. del Rosario	70	November 24, 1998 to present
Pedro E. Roxas*	54	March 1, 2001 to present
Tony Tan Caktiong	57	July 8, 2008 to present
Alfred V. Ty*	42	June 13, 2006 to present

* *Independent Director*

The name, age, position and period of service of the key officers and advisors of PLDT as at April 12, 2010 are as follows:

Name	Age	Position(s)	Period during which individual has served as such
Manuel V. Pangilinan	63	Chairman of the Board	February 19, 2004 to present
Napoleon L. Nazareno	60	President and Chief Executive Officer	February 19, 2004 to present
		President and Chief Executive Officer of Smart	January 2000 to present
Ma. Lourdes C. Rausa-Chan	56	Corporate Secretary	November 24, 1998 to present
		Senior Vice President	January 5, 1999 to present
			March 4, 2008 to present

		Corporate Affairs and Legal Services Head	
		Chief Governance Officer	
Anabelle L. Chua	49	Senior Vice President	February 26, 2002 to present
		Corporate Finance and Treasury Head	March 1, 1998 to present
		Treasurer	February 1, 1999 to present
		Chief Financial Officer of Smart	December 1, 2005 to present
Ernesto R. Alberto	49	Senior Vice President	May 15, 2003 to present
		Corporate Business Head	May 15, 2003 to January 31, 2008
		Customer Sales and Marketing Head	February 1, 2008 to present

Name	Age	Position(s)	Period during which individual has served as such
Rene G. Bañez	54	Senior Vice President	January 25, 2005 to present
		Chief Governance Officer	October 5, 2004 to March 3, 2008
		Administration and Materials Management Head	January 1, 2008 to present
Jun R. Florencio	54	Senior Vice President	June 14, 2005 to present
		Audit and Assurance Head	September 1, 2000 to February 15, 2006
		Internal Audit and Fraud Risk Management Head	February 16, 2006 to present
Menardo G. Jimenez, Jr.	46	Senior Vice President	December 9, 2004 to present
		Corporate Communications and Public Affairs Head	December 1, 2001 to June 15, 2004
		Retail Business Head	June 16, 2004 to December 31, 2007
		Business Transformation Office Revenue Team	January 1, 2008 to present
George N. Lim	57	Senior Vice President	February 26, 1999 to present
		Network Services Head	February 1, 2003 to December 31, 2007
		Business Transformation Office Network Team	January 1, 2008 to present
Alfredo S. Panlilio	47	Senior Vice President	May 8, 2001 to present
		International and Carrier Business Head	February 1, 2003 to June 15, 2004
		PLDT Global Corp. President	June 16, 2004 to present
Claro Carmelo P. Ramirez	49	Senior Vice President	July 1, 1999 to present
		Retail Business Head	February 1, 2003 to June 15, 2004
		International and Carrier Business Head	June 16, 2004 to December 4, 2005
		Consumer Affairs Head	December 5, 2005 to December 31, 2007
		Office of the President and CEO	January 1, 2008 to present
Victorico P. Vargas	58	Senior Vice President	February 15, 2000 to present
		Human Resources Head	February 15, 2000 to present
		International and Carrier Business Head	March 1, 2007 to December 31, 2007
		Business Transformation Office Head	January 1, 2008 to present
June Cheryl A. Cabal	36	First Vice President	May 6, 2008 to present
		Financial Reporting and Planning Head	May 1, 2002 to November 15, 2006
		Financial Reporting and Controllership Head	November 15, 2006 to present
Christopher H. Young	52	Chief Financial Advisor	November 24, 1998 to present

Under the Shareholders Agreement entered into among First Pacific and certain of its affiliates, or the FP Parties, NTT Communications and NTTC-UK on September 28, 1999, as amended by the Cooperation Agreement dated January 31, 2006, NTT Communications is entitled to nominate two directors to the PLDT board of directors and the FP Parties are entitled to nominate six directors. The Shareholders Agreement also entitles NTT Communications to nominate two directors to the board of directors of Smart and, subject to specified conditions, one member to the board of directors of all other PLDT subsidiaries. However, as a result of the Cooperation Agreement, in respect of NTT Communications right to nominate two directors to each of the board of directors of PLDT and Smart, respectively, NTT Communications and the FP Parties agreed to vote as a PLDT shareholder, lobby the directors of

PLDT and otherwise use reasonable efforts to procure a shareholders vote in favor of replacing on each of the board of directors of PLDT and Smart, respectively, one NTT Communications nominee with one NTT DoCoMo nominee. Under the Shareholders Agreement, NTT Communications is also entitled to appoint members or advisors of certain PLDT management and board committees, including the audit, governance and nomination, executive compensation and technology strategy committees described below under Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees, and as a result of the Cooperation Agreement, the FP Parties and NTT Communications agreed to use reasonable efforts to procure that NTT DoCoMo be entitled to appoint one individual, who may be replaced at any time, to attend any board committee of PLDT as a member, advisor or observer. Moreover, the Cooperation Agreement provides that upon NTT Communications, NTT DoCoMo and their subsidiaries owning in the aggregate 20% or more of the shares of PLDT s common stock and for as long as NTT Communications, NTT DoCoMo and their subsidiaries continue to own in the aggregate 17.5% of the shares of PLDT s common stock then outstanding, NTT DoCoMo will be entitled to additional rights under the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, including the right to nominate one additional NTT DoCoMo nominee to the board of directors of each of PLDT and Smart. Pursuant to publicly available filings made with the PSE, as at April 12, 2010, NTT Communications and NTT DoCoMo together beneficially owned approximately 21% of the outstanding shares of PLDT s common stock. As a result, NTT DoCoMo is currently entitled to nominate one additional NTT DoCoMo nominee to the board of directors of each of PLDT and Smart. Under the Shareholders Agreement and the Cooperation Agreement, each party has agreed, under certain circumstances, to vote its shares of common stock in favor of the nominees designated by the other parties. For more information about the Cooperation Agreement, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

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The business address of each of the other directors, key officers and advisors identified above is the Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

The following is a brief description of the business experience during the past five years of each of our directors, key officers and advisors.

Mr. Manuel V. Pangilinan has been a director of PLDT since November 24, 1998. He was appointed as Chairman of the Board of PLDT after serving as its President and Chief Executive Officer from November 1998 to February 2004. He is the Chairman of the Governance and Nomination and Technology Strategy Committees of the Board of Directors of PLDT. He also serves as Chairman of Smart, Piltel, ePLDT, Metro Pacific Investments Corporation, Landco Pacific Corporation, Maynilad Water Services, Inc., Philex Mining Corporation, Manila North Tollways Corporation, Medical Doctors, Inc. (Makati Medical Center), Colinas Verdes, Inc. (Cardinal Santos Medical Center), and Davao Doctors, Inc. He sits on the Board of Meralco and is Chairman of its Executive Committee.

Mr. Pangilinan founded First Pacific Company Ltd. in 1981 and served as Managing Director until 1999. He was appointed as Executive Chairman until June 2003, when he was named as CEO and Managing Director. He also holds the position of President Commissioner of P. T. Indofood Sukses Makmur Tbk, the largest food company in Indonesia.

Outside the First Pacific Group, Mr. Pangilinan is Chairman of the Board of Trustees of San Beda College. He also serves as Chairman of PLDT-Smart Foundation, Inc. and the Philippine Business for Social Progress, as Vice Chairman of the Foundation for Crime Prevention, a private sector group organized to assist the government with crime prevention, and is a member of the Board of Trustees of Caritas Manila and Radio Veritas-Global Broadcasting Systems, Inc. In February 2007, he was named the President of the Samahang Basketball ng Pilipinas, a newly formed national sport association for basketball, and effective January 2009, he assumed the chairmanship of the Amateur Boxing Association of the Philippines, the governing body of the amateur boxers in the country.

Mr. Pangilinan has received numerous prestigious awards including the Ten Outstanding Young Men of the Philippines (TOYM) Award for International Finance (1983), the Presidential Pamana ng Pilipino Award by the Office of the President of the Philippines (1996), Honorary Doctorate in Humanities by the San Beda College (2002), Best CEO in the Philippines by Institutional Investor (2004), CEO of the Year (Philippines) by Biz News Asia (2004), People of the Year by People Asia Magazine (2004), Distinguished World Class Businessman Award by the Association of Makati Industries, Inc. (2005), Management Man of the Year by the Management Association of the Philippines (2005), Order of Lakandula (Rank of a Komandante) by the Office of the President of the Philippines (2006), and Honorary Doctorate in Humanities by the Xavier University (2007). He was voted as Corporate Executive Officer of the Year (Philippines) and Best Executive (Philippines) at the 2007 and 2008 Best-Managed Companies and Corporate Governance Polls conducted by Asia Money.

Mr. Pangilinan graduated cum laude from the Ateneo de Manila University, with a Bachelor of Arts Degree in Economics. He received his Master s Degree in Business Administration from Wharton School of Finance and Commerce at the University of Pennsylvania.

Mr. Napoleon L. Nazareno has been a director of PLDT since November 24, 1998. He was appointed as President and Chief Executive Officer of PLDT on February 19, 2004 and is concurrently the President and Chief Executive Officer of Smart, Piltel and CURE, positions he has held since January 2000, November 2004 and April 2008, respectively. He is a member of the Technology Strategy Committee of the Board of Directors of PLDT. He also serves as Chairman of several subsidiaries of Smart including Wolfpac, SBI, I-Contacts. His other directorships include Mabuhay Satellite Corporation where he is Chairman, ACeS Philippines where he is also the President, PLDT Global, ePLDT, and Meralco. He is a non-executive director of First Pacific Company Ltd.

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Mr. Nazareno s business experience spans several countries in over 30 years and his exposure cuts across a broad range of industries, namely, packaging, bottling, petrochemicals, real estate and, in the last decade, telecommunications and information technology. In 1981, he started a successful career in the international firm Akerlund & Rausing, occupying senior management to top level positions and, in 1989, became the President and Chief Executive Officer of Akerlund & Rausing (Phils.), Inc. In August 1995, he moved to Metro Pacific Corporation where he served as President and Chief Executive Officer until December 1999.

In November 2004, Mr. Nazareno was appointed by President Gloria Macapagal-Arroyo as Private Sector Representative of the Public-Private Sector Task Force for the Development of Globally Competitive Philippine Service Industries. In February 2006, he became part of the Private Sector Advisory Board of the Commission on Information and Communications Technology, under the Office of the President of the Philippines. Mr. Nazareno is also a board member of GSM Association Worldwide since November 2004. He was voted Corporate Executive Officer of the Year (Philippines) for three consecutive years at the 2004, 2005 and 2006 Best-Managed Companies and Corporate Governance Polls conducted by Asiamoney.

Mr. Nazareno received his Master s Degree in Business Management from the Asian Institute of Management and completed the INSEAD Executive Program of the European Institute of Business Administration in Fountainbleu, France.

Mr. Donald G. Dee was first elected as a director of PLDT on September 30, 2008. He is a Commissioner of the SSS since August 10, 2001 and the Special Envoy of the President of the Philippines for Trade Negotiations. He is the Chairman of Zest Airways, Inc. (formerly Asian Spirit) and Central Peak Leisure & Development, Inc. where he is also the President, the President of Phoenix Resource & Management Corp. and a director of Manila Exposition Complex, Inc. He is affiliated with several private and government organizations including the Philippine Chamber of Commerce and Industry and Employers Confederation of the Philippines of which he is Chairman Emeritus and the Export Development Council of which he is an Executive Committee member. Mr. Dee received his Commerce Degree from De La Salle University.

Ms. Helen Y. Dee has been a director of PLDT since June 18, 1986. She is the Chairman or a director of several companies engaged in the banking, insurance, real property and other lines of businesses and the President and/or Chief Executive Officer of Moira Management, Inc., YGC Corporate Services, Inc., GPL Holdings, Inc., Hydee Management & Resources Inc., House of Investments, Inc., Tameena Resources, Inc., Grepalife Asset Management Corporation, Grepalife Fixed Income Fund Corporation and Financial Brokers Insurance Agency, Inc. Ms. Dee received her Master s Degree in Business Administration from De La Salle University.

Atty. Ray C. Espinosa has been a director of PLDT since November 24, 1998. He is the President and Chief Executive Officer of MediaQuest Holdings, Inc., ABC Development Corporation (TV5), Mediascape, Inc. (Cignal TV), Nation Broadcasting Corporation and other subsidiaries of MediaQuest Holdings, Inc. and the Vice Chairman of Philweb Corporation. He is also the Chairman of the Board of Trustees of the PLDT Beneficial Trust Fund and Head of the Regulatory Affairs and Policies Group of PLDT. He is a director of several companies engaged in mining, public utility and media businesses.

Atty. Espinosa served as President and CEO of ePLDT from August 21, 2000 until April 15, 2010. He was a partner and member of the Executive Committee of the law firm Sycip Salazar Hernandez & Gatmaitan until June 2000. He has been cited as one of the leading capital market lawyers (1998 2002) and project finance lawyers (1996 and 1999) by Asia Law Leading Lawyers and Euromoney Guide to the World s Leading Project Finance Lawyers. He topped the Philippine Bar examination in 1982 after graduating Salutatorian of Law Class 1982 from the Ateneo de Manila University and received his Master of Laws Degree from the University of Michigan Law School.

Mr. Tatsu Kono has been a director of PLDT since March 28, 2006. He is a member of the Governance and Nomination, Executive Compensation and Technology Strategy Committees and advisor to the Audit Committee of the Board of Directors of PLDT. He joined NTT DoCoMo in 2000 and served as Executive Director of the Global Investment Group. In 2001, he was appointed as a member of the Board of Directors and Vice President In-Charge for Sales and Marketing of KG Telecom. He has been a Managing Director of Corporate Sales Department, Corporate Marketing Division of NTT DoCoMo since 2003. Prior to that, he occupied various management positions in Kokusai Denshin Denwa Co., Ltd. Mr. Kono received his Bachelor of Law Degree from the Waseda University.

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Rev. Fr. Bienvenido F. Nebres, S.J. has been a director of PLDT since November 24, 1998. He is the Chairman of the Audit Committee and a member of the Governance and Nomination Committee of the Board of Directors of PLDT. He is the Chairman of the of the Board of Trustees of Assumption College, President and a member of the Board of Trustees of the Ateneo de Manila University, the Vice Chairman of the Board of Trustees of the Asian Institute of Management and a member of the Board of Trustees of several private educational institutions including Loyola School of Theology, and Sacred Heart School Jesuit Cebu City. He is also a member of the Board of Trustees of Manila Observatory and Philippine Institute of Pure and Applied Chemistry. Rev. Fr. Nebres received his Ph.D in Mathematics from the Stanford University.

Mr. Takashi Ooi has been a director of PLDT since November 6, 2007. He built his career in Nippon Telegraph and Telephone Corporation and its subsidiaries NTT Communications Corporation (NTT Communications) and NTT America. He is presently the Senior Vice President for Global Business of NTT Communications, in charge of product/service development and global network design/engineering and proposal/installation/delivery of global network and solutions for global multi-national companies. Prior to that, he held management positions in various departments of NTT Communications and served as Vice President for Product Management Global Division of NTT Communications, Director of NTT America and Technical Advisor to Telegent, Inc. Mr. Ooi obtained his Master of Science Degree in Physics and Master of Business Administration Degree from the University of Tokyo and Boston University, respectively.

Mr. Oscar S. Reyes has been a director of PLDT since April 5, 2005. He serves as a member of the Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees of the Board of Directors of PLDT, and is an independent director of Smart. He is the Chairman of Link Edge, Inc. and MRL Gold Phils., Inc. and a director of various public companies and private firms engaged in banking, energy, financial and business advisory services, manufacturing, mining, shipping, real estate and related activities. He was the Country Chairman of the Shell Companies in the Philippines from 1997 to 2001 and concurrently the Managing Director of Shell Philippines Exploration B.V. until 2002. From 2002 to 2004, he was the Senior Management Adviser of Shell Philippines Exploration B.V. and from 2002 to 2006, the CEO Adviser of Pilipinas Shell Petroleum Corporation.

Mr. Reyes completed the Master in Business Administration Program of the Ateneo Graduate School of Business and the Program in Management Development of Harvard Business School, and holds a Diploma in International Business from the Waterloo Lutheran University, Canada.

Amb. Albert F. del Rosario has been a director of PLDT since November 24, 1998 and serves as Chairman of the Executive Compensation Committee of the Board of Directors of PLDT. He is the President of Gotuaco, del Rosario Insurance Brokers, Inc. and of the Philippine Telecommunications Investment Corporation. He is the Chairman of Philippine Stratbase Consultancy, Inc., the Vice Chairman of Asia Insurance (Philippines) Corporation and is a director of several companies engaged in infrastructure, property development, media, public utility and mining businesses. He also sits in the board of First Pacific Company Limited and is Chairman of its Remuneration Committee, and is a Commissioner of P.T. Indofood Sukses Makmur Tbk, the largest food company in Indonesia. Amb. del Rosario also serves as chairman and/or member of various foundations and civic associations.

From 2001 to 2006, he served as the Ambassador Plenipotentiary and Extraordinary of the Republic of the Philippines to the United States of America. Amb. del Rosario received his Bachelor of Science Degree in Economics from New York University.

Mr. Pedro E. Roxas has been a director of PLDT since March 1, 2001. He serves as a member of the Audit and Executive Compensation Committees of the Board of Directors of PLDT, and is an independent director of ePLDT. He is the Chairman and/or Chief Executive Officer/President of various business organizations in the fields of agri-business, sugar manufacturing and real estate development including Roxas Holdings Inc., Roxas and Company, Inc., Roxaco Land Corporation, Fuego Land Corporation and Hawaiian Philippine Sugar Company, and a director of Brightnote Assets Corporation and BDO Private Bank. Mr. Roxas received his Bachelor of Science Degree in Business Administration from the University of Notre Dame, Indiana, U.S.A.

Mr. Tony Tan Caktiong has been a director of PLDT since July 8, 2008. He is the Chairman and Chief Executive Officer of Jollibee Foods Corporation, a leader in the fastfood business, which owns and operates a chain of restaurants nationwide and abroad. He is also the Chairman of Jollibee Foundation, a director of First Gen Corporation and a member of the Board of Trustees of Temasek Foundation, Asian Institute of Management and St. Luke s Medical Center. Mr. Tan Caktiong is a recipient of numerous awards from various organizations, including the prestigious Philippine Entrepreneur of the Year Award in 2003 given by Ernst & Young, and the World Entrepreneur of the Year Award in 2004 given in Monaco. Mr. Tan Caktiong honed his business skills by attending various courses and seminars in several educational institutions such as the Asian Institute of Management, Stanford University (Singapore) and Harvard University.

Mr. Alfred V. Ty has been a director of PLDT since June 13, 2006. He serves as a member of the Governance and Nomination and Executive Compensation Committees of the Board of Directors of PLDT. He is the Chairman of Lexus Manila, Inc., and Asia Pacific Top Management International Resources, Corp. (Marco Polo Plaza Cebu), the Vice Chairman of Toyota Motors Philippines Corporation, the President of Federal Land, Inc., a director of Global Business Power Corp. and the Corporate Secretary of Metropolitan Bank and Trust Company and Metrobank Foundation, Inc. Mr. Ty received his Bachelor of Science Degree in Business Administration from the University of Southern California.

Except for Messrs. Tatsu Kono and Takashi Ooi who are Japanese citizens, all of the other directors/independent directors are Filipino citizens.

Atty. Ma. Lourdes C. Rausa-Chan, Corporate Secretary and Corporate Affairs and Legal Services Head, also serves as Corporate Secretary of Piltel and several subsidiaries of PLDT. She concurrently holds the position of Chief Governance Officer of PLDT since March 2008 and represents PLDT as a sponsoring member in the Ethics and Compliance Officers Association (USA) and is a non-voting member of the Governance and Nomination Committee. Prior to joining PLDT, she was the Group Vice President for Legal Affairs of Metro Pacific Corporation and the Corporate Secretary of some of its subsidiaries. Ms. Rausa-Chan obtained her Bachelor of Arts Degree in Political Science and Bachelor of Laws Degree from the University of the Philippines.

Ms. Anabelle L. Chua, Treasurer and Corporate Finance and Treasury Head of PLDT, concurrently holds the position of Chief Financial Officer of Smart since 2006. She holds directorships in Smart and several subsidiaries of PLDT and Smart including ePLDT, Piltel, Wolfpac, SBI, CURE, Airborne Access, Smart Hub, Inc., and Chikka Holdings Limited. She is a member of the Board of Trustees of the PLDT Beneficial Trust Fund, and a director of the Philippine Stock Exchange, Inc. and Securities Clearing Corporation of the Philippines. She has over 15 years of work experience in the areas of corporate finance, treasury, financial control and credit risk management, and was a Vice President at Citibank, N.A. where she worked for 10 years prior to joining PLDT in 1998. She graduated magna cum laude from the University of the Philippines with a Bachelor of Science Degree in Business Administration and Accountancy.

Mr. Ernesto R. Alberto, Customer Sales and Marketing Group Head, leads all revenue generation relationship initiatives of PLDT including product/market development, product management, marketing, sales and distribution, and customer relationship management. He has over 20 years of work experience in the areas of corporate banking, relationship management and business development and, prior to joining PLDT in 2003, was a Vice President and Head of the National Corporate Group of Citibank N.A., Manila from 1996 to May 2003. He previously served as Vice President and Head of the Relationship Management Group of Citytrust Banking Corporation. He is the Chairman and/or President of Subictel, Clarktel, Philcom, Maratel, Telesat and BCC and also serves as a director of Mabuhay Satellite, Acasia, Smart NTT Multimedia, Inc. and NTT Communications Phils. Mr. Alberto obtained his Master s Degree in Economic Research from the University of Asia & the Pacific.

Mr. Rene G. Bañez, Administration and Materials Management Group Head, was the Chief Governance Officer of PLDT from October 2004 to March 3, 2008 and the Support Services and Tax Management Group Head of PLDT from January 1999 to January 2001. He served as Commissioner of the Philippine Bureau of Internal Revenue from February 2001 to August 2002. Prior to joining PLDT, he was the Group Vice President for Tax Affairs of Metro Pacific Corporation for three years until December 1998. Mr. Bañez is a faculty member of the Ateneo de Manila University teaching taxation and corporate governance. He obtained his Bachelor of Laws Degree from the Ateneo de

Manila University.

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Mr. Jun R. Florencio, Internal Audit and Fraud Risk Management Head, has over 20 years of work experience in the areas of external and internal audit, credit management, information technology, financial management, and controllership. He joined the Company in April 1999 and previously held various positions in the finance organization of Eastern Telecommunications and was the Financial Controller of Smart for 4 years until March 1999. Mr. Florencio obtained his Bachelor of Science Degree in Commerce, Major in Accounting from the University of Sto. Tomas.

Mr. Menardo G. Jimenez, Jr., Revenue Team Head of the Business Transformation Office, was the Retail Business Head of PLDT from June 2004 to December 31, 2007 and, prior to that, the Corporate Communications and Public Affairs Head. He had a stint at GMA Network, Inc., where he served as head of a creative services and network promotions, during which he produced a number of international award-winning campaigns for said company and its radio and television programs. In 2005, he won the first CEO Excel Award (Communications Excellence in Organizations) given by the International Association of Business Communicators mainly for effectively using communication strategies in managing the PLDT Retail Business team to meet its targets and achieve new heights in the fixed line business. In 2006, his further achievements in handling the retail business of PLDT and his stint in Smart as officer-in-charge for marketing were recognized by the Agora Awards which chose him as its Marketing Man of the Year. Mr. Jimenez obtained his AB Economics Degree from the University of the Philippines.

Mr. George N. Lim, Network Team Head of the Business Transformation Office, has over 25 years of work experience in telecommunications management. He was the Network Services Head from February 2003 to December 2007, Network Development and Provisioning Head from February 1999 to January 2003 and Marketing Head from December 1993 to February 1999. Mr. Lim holds directorships in some subsidiaries of PLDT. He obtained his Bachelor of Science Degree in Electrical Engineering from the Mapua Institute of Technology and Master of Science Degree in Industrial Economics from the University of Asia and Pacific (formerly Center for Research and Communication).

Mr. Alfredo S. Panlilio is the President of PLDT Global with general management and strategic responsibilities for the international retail business. He has over 15 years of work experience in the fields of business development and information technology. Prior to joining PLDT in July 1999, he held management positions at IBM Philippines, Inc. and was the Vice President for Business Development of the Lopez Communications Group (ABS-CBN Broadcasting, BayanTel and Sky Cable) until June 1999. Mr. Panlilio holds directorships in some subsidiaries of PLDT and PLDT Global. He obtained his Executive Master in Business Administration Degree from the joint program between Kellogg School of Management, Northwestern University and Hong Kong University of Science and Technology.

Mr. Claro Carmelo P. Ramirez has over 20 years of work experience in the field of marketing. Prior to joining PLDT, he held various managerial positions in Colgate Palmolive Philippines, Inc., and served as Associate Director for Global Business Development of Colgate Palmolive Company in New York and as Marketing Director of Colgate Palmolive Argentina, S.A.I.C. He is a director of iPlus Intelligent Network, Inc. and Sidera Technologies, Inc. He graduated with honors from the Ateneo de Manila University with a Bachelor of Arts Degree Major in Economics.

Mr. Victorico P. Vargas was appointed as Business Transformation Office Head in January 2008, concurrent with his position as Human Resources Group Head, to lead the business transformation initiatives of PLDT. He is a non-voting member of the Governance and Nomination and Executive Compensation Committees of PLDT and is a director of several subsidiaries of PLDT including ePLDT, Subictel. and Clarktel. He has over 20 years of work experience in various industries (insurance, consumer goods, real estate, banking and finance, telecommunications/information technology) in the area of human resource management. Prior to joining PLDT in February 2000, he served as the Country Human Resources Director of Citibank N.A., Manila and spent two years outside the Philippines as Country Human Resources Director of Citibank, N.A., Bangkok. Mr. Vargas graduated from the University of Santo Tomas with a Bachelor of Science Degree in Psychology.

Ms. June Cheryl A. Cabal, Controller and Financial Reporting and Controllership Head, is also a director and the chief financial officer/treasurer of certain subsidiaries of PLDT and the PLDT-Smart Foundation, Inc. Prior to joining PLDT in June 2000 as an executive trainee in the Finance Group, she was a Senior Associate in the business audit and advisory group of Sycip Gorres Velayo & Co. She was the 2008 Young Achievers Awardee for Commerce and Industry conferred by the Philippine Institute of Certified Public Accountants. In March 2010, she was appointed as a member of the Financial Reporting Standards Council of the Philippines. Ms. Cabal obtained her Bachelor of Science Degree in Accountancy from De La Salle University and Master in Business Management Degree from the Asian Institute of Management.

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Mr. Christopher H. Young is our chief financial advisor. He worked in PricewaterhouseCoopers in London and Hong Kong from 1979 until 1987, at which time he joined First Pacific in Hong Kong as group financial controller. He joined Metro Pacific Corporation in 1995 as finance director, a position he held until he joined us in November 1998.

The following is a brief description of the business experience of each of the other members of senior management of PLDT as at April 12, 2010:

Atty. Ray C. Espinosa was appointed in March 2008 as Regulatory Affairs and Policies Head responsible for providing top level direction and coordinating closely with the various units of PLDT as well as all subsidiaries and affiliates of PLDT to ensure effective implementation of government and telecom regulatory strategies, policies and other related matters. See Item 6. Directors, Senior Management and Employees Directors, Key Officers and Advisors .

Mr. Rolando G. Peña was appointed in January 2008 as Head of Customer Service Assurance Group. He is responsible for overseeing all customer fulfillment services, including customer service and network engineering and operations. Mr. Peña has over 20 years of experience in telecommunication operations and was chosen as Electronics and Communications Engineer for the year 2000 by the Institute of Electronics and Communications Engineers of the Philippines. Since 2008, he has been in-charge of network convergence and synchronization in the planning, building, operations and maintenance of the fixed and mobile business of PLDT and Smart. From 1999 to 2007, he was the Head of Network Services Division of Smart and prior to joining Smart in 1994, he was the First Vice President in charge of Technical Operations of Digital Telecommunications Philippines, Inc. Mr. Peña holds directorships in some subsidiaries of PLDT and Smart.

The following is a list of directorships in other private and public companies of the directors/ independent directors named below:

	Name of Companies	
Name of Director	**Public**	**Private**
Helen Y. Dee	EEI Corporation	AY Holdings, Inc.
	National Reinsurance Corporation of the Philippines (Vice Chairman)	Great Life Financial Assurance Corporation Great Pacific Life Assurance Corp.
	Petro Energy Resources Corporation	Hi-Eisai Pharmaceuticals, Inc. (Chairman)
	Rizal Commercial Banking Corporation(Chairman)	Honda Cars, Kalookan
	Seafront Resources Corporation	Honda Cars Philippines, Inc.
		Isuzu Philippines, Inc.
		La Funeraria Paz, Inc. (Chairman)
		Landev Corp. (Chairman)
		Malayan Insurance Company (Chairman)
		Manila Memorial Park Cemetery, Inc. (Chairman)
		Mapua Information Technology Center, Inc. (Chairman)
		Merchants Bank (Chairman)
		MICO Equities, Inc.
		Pan Malayan Express
		Pan Malayan Management and Investment Corporation (Vice Chairman)
		Pan Malayan Realty Corp. (Chairman)

		RCBC Forex Brokers Corp. RCBC Savings Bank (Chairman) South Western Cement Corporation Xamdu Motors, Inc. (Chairman)
Ray C. Espinosa	Cyber Bay Corporation Lepanto Consolidated Mining Company (Independent Director) Metro Pacific Investments Corporation Manila Electric Company	Bancholders, Inc. Bayantrade, Inc. (Chairman) Beacon Electric Asset Holdings, Inc. Bonifacio Communications Corporation Digital Paradise, Inc. (Chairman) Enterprise Investment Holdings, Inc.

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Name of Director	Name of Companies Public	Name of Companies Private
		ePDS, Inc. (Chairman) ePLDT Ventus, Inc. (Chairman) Green Apple Business Ventures Corp. Green Apple Food Factory, Inc. Infocom Technologies, Inc. (Chairman) Intelligent Network Plus, Inc. (Chairman) Level Up! Games Philippines, Inc. (Chairman) Metro Pacific Assets Holdings, Inc. Metro Pacific Resources, Inc. mySecureSign, Inc. (Chairman) netGames Philippines, Inc. (Chairman) New Gallant Limited Pacific Space International Development Corporation (Chairman) Parlance Systems, Inc. (Chairman) Philippine Pacific First Transmission Management Corporation Philippine Telecommunications Investment Corporation Sidera Technologies, Inc. (Chairman) SPi Global Solutions, Inc. (Chairman) SPi Technologies, Inc. (Chairman) Tahanan Mutual Building and Loan Association, Inc. The Philippine Home Cable Holdings, Inc. (Chairman) Two Rivers Pacific Holdings Corporation Unilink Communications Corporation (Chairman) Vocativ Systems, Inc. (Chairman) Wolfpac Mobile, Inc.
Albert F. del Rosario	LMG Chemicals Corporation Metro Pacific Investments Corporation Metro Pacific Tollways Corporation Philex Mining Corporation	ABC Development Corporation (ABC 5) Bancholders, Inc. Business World Publishing Corporation Hastings Holdings, Inc. Landco Pacific Corporation Manila North Tollways Corporation Metro Pacific Tollways Development Corporation MediaQuest Holdings, Inc. MediaScape, Inc.

		Nation Broadcasting Corporation Satventures, Inc. Six Harmonies Holdings, Inc. Smart Communications Philippine Holdings, Inc. International Graduate University (Washington D.C.)
Oscar S. Reyes	Alcorn Gold Resources, Inc. (Independent Director) Ayala Land, Inc. (Independent Drector) Bank of the Philippine Islands Basic Energy Corporation (Independent Director) Manila Water Company, Inc. (Independent Director) Pepsi Cola Products Philippines, Inc. (Independent Director)	Basic EcoMarket Farms, Inc. (Chairman) CEO s Inc. First Philippine Electric Company (Independent Director) Global Resources for Outsourced Workers, Inc. In1 Archipelago Minerals, Inc. Mindoro Resources Ltd. Petrolift, Inc. (Independent Director) Sun Life Prosperity Dollar Abundance Fund, Inc. (Independent Director) Sun Life Prosperity Dollar Advantage Fund, Inc. (Independent Director) Sun Life Financial Plans, Inc. (Independent Director) Tower Club, Inc.

Terms of Office

The directors of PLDT are elected each year to serve until the next annual meeting of stockholders and until their successors are elected and qualified. The term of office of all officers is coterminous with that of the board of directors that elected or appointed them.

Family Relationships

None of the directors, key officers and advisors of PLDT has any family relationships up to the fourth civil degree either by consanguinity or affinity.

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Compensation of Key Management Personnel

The aggregate compensation paid to our key officers and directors named above, as a group, for 2009 amounted to approximately Php342 million.

The following table below sets forth the aggregate amount of compensation paid in 2009 and 2008 and estimated amount of compensation expected to be paid in 2010 to: (1) the President and Chief Executive Officer, Napoleon L. Nazareno and four most highly compensated officers of PLDT, as a group, namely; Victorico P. Vargas, Anabelle L. Chua, Ernesto R. Alberto and Ma. Lourdes C. Rausa-Chan and (2) all other key officers, other officers and directors, as a group.

	2010 Estimate		2009		2008	
			Actual (in millions)			
President and CEO[1] and four most highly compensated key officers:						
Salary[2]	Php	53	Php	47	Php	41
Bonus[3]		12		10		8
Other compensation[4]		232		52		46
		297		109		95
All other key officers, other officers and directors as a group (excluding the President and CEO and four most highly compensated key officers):						
Salary[2]		219		204		188
Bonus[3]		61		54		48
Other compensation[4]		886		246		266
	Php	1,166	Php	504	Php	502

(1) The President and CEO receives compensation from Smart but not from PLDT.

(2) Basic monthly salary.

(3) Includes longevity pay, mid-year bonus, 13th month and Christmas bonus.

(4) Includes variable pay and other payments. Variable pay is based on an annual incentive system that

encourages and rewards both individual and group/team performance and is tied to the achievement of Corporate/Unit/Customer Satisfaction Objectives. It covers regular officers and executives of PLDT and is based on a percentage of their guaranteed annual cash compensation. Includes LTIP costs to be paid in 2010.

Each of the directors of the Company is entitled to a director s fee for each meeting of the Board of Directors attended. In addition, the directors who serve in the committees of the Board of Directors, namely, the Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees, are each entitled to a fee for each committee meeting attended.

On January 27, 2009, the Board of Directors of PLDT approved an increase in director s board meeting attendance fees to Php200 thousand from Php125 thousand and board committee meeting attendance fees to Php75 thousand from Php50 thousand. The attendance fees for directors were last adjusted in July 1998. The Executive Compensation Committee recommended the increase taking into consideration PLDT s profitability growth (versus Board remuneration) and the results of the survey on Board remuneration conducted by Watson Wyatt, which showed that PLDT s directors remuneration, consisting only of fees for meeting attendance, and/or retainer fees and profit share were below the median of directors remuneration among participating companies in the survey.

Except for the fees mentioned above, the directors are not compensated, directly or indirectly, for their services as such directors. The aggregate amount of per diems paid to the directors for their attendance in Board and Board Committee meetings is included in Other compensation in the above table. The total amount of per diems paid in 2009 and 2008 were approximately Php36 million and Php28 million, respectively. The total amount of per diems estimated to be paid in 2010 is approximately Php38 million.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group s retirement and incentive plans.

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Long-Term Incentive Plan

On August 28, 2006, the PLDT s Board of Directors approved, in principle, the broad outline of the PLDT Group s strategic plans for 2007 to 2009 focusing on the development of new revenue streams to drive future growth while protecting the existing core communications business. To ensure the proper execution of the three-year plan, particularly with respect to the manpower resources being committed to such plans, a new LTIP, or 2007 to 2009 LTIP, upon endorsement of the Executive Compensation Committee, was approved by the Board of Directors to cover the period from January 1, 2007 to December 31, 2009, or the 2007 to 2009 Performance Cycle. As a result of the establishment of the 2007 to 2009 LTIP, the Board of Directors also approved the early vesting of its Original LTIP established in 2004, or Original LTIP, by the end of 2006 for those of its participants who were invited and chose to join the 2007 to 2009 LTIP. Participants in the Original LTIP who were not invited to join the 2007 to 2009 LTIP, or who were invited but chose not to join, remained subject to the Original LTIP and its original vesting schedule. The payment under the 2007 to 2009 LTIP was intended to be made at the end of the 2007 to 2009 Performance Cycle (without interim payments) and contingent upon the achievement of an approved target increase in PLDT s common share price by the end of the 2007 to 2009 Performance Cycle and a cumulative consolidated net income target for the 2007 to 2009 Performance Cycle. The 2007 to 2009 LTIP payments are expected to be made in the second quarter of 2010.

The 2007 to 2009 LTIP, like the Original LTIP, is a cash plan that was intended to provide meaningful, contingent, financial incentive compensation for eligible executives, officers and advisors of the PLDT Group, who are consistent performers and contributors to the achievement of the long-term strategic plans and objectives, as well as the functional strategy and goals of the PLDT Group.

The 2007 to 2009 LTIP, like the Original LTIP, is administered by the executive compensation committee which has the authority to determine: (a) eligibility and identity of participants; (b) the award attributable to each participant based on the participant s annual base compensation and taking into account such participant s seniority, responsibility level, performance potential, tenure with the PLDT Group, job difficulty and such other measures as the Committee deems appropriate; (c) the level of achievement of the performance objectives; and (d) the actual award payable to each participant based on the level of achievement of the performance objectives.

The fair value of the 2007 to 2009 LTIP recognized as expense for the years ended December 31, 2009, 2008 and 2007 amounted to Php1,833 million, Php1,281 million and Php1,448 million, respectively. As at December 31, 2009 and 2008, outstanding LTIP liability amounted to Php4,582 million and Php2,749 million, respectively, see *Note 25 Share-based Payments and Employee Benefits* to the accompanying consolidated financial statements in Item 18.

There are no other warrants or options held by PLDT s officers or directors either singly or collectively.

Share Ownership

The following table sets forth information regarding ownership of our common stock and preferred stock, as at April 12, 2010, by our continuing directors, key officers and advisors. Each individual below owns less than 1% of our outstanding common and preferred shares.

Name of Owner	Shares of Common Stock	Shares of Preferred Stock
Manuel V. Pangilinan	225,450(1)	360
Napoleon L. Nazareno	13,927(1)	495
Helen Y. Dee	98	180
Ray C. Espinosa	18,743(1)	
Takashi Ooi	1	
Tatsu Kono	100	
Rev. Fr. Bienvenido F. Nebres, S.J.	2	
Donald G. Dee	1	640
Oscar S. Reyes	1	360

Albert F. del Rosario	140,005(2)	2,100
Pedro E. Roxas	1	540
Alfred V. Ty	1	
Tony Tan Caktiong	1	50

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Name of Owner	Shares of Common Stock	Shares of Preferred Stock
Ma. Lourdes C. Rausa-Chan	699(1)	350
Ernesto R. Alberto	7,500(1)	
Rene G. Bañez	1	540
Anabelle L. Chua	13,878(1)	
Jun R. Florencio	15	530
Menardo G. Jimenez, Jr.	22	
George N. Lim	5,356(1)	360
Alfredo S. Panlilio	6,031(3)	
Claro Carmelo P. Ramirez	11,500	
Victorico P. Vargas	2,878	180
June Cheryl A. Cabal		
Christopher H. Young	54,313(1)	

(1) *Includes PLDT common shares that have been lodged with the Philippine Depository and Trust Co., or PDTC.*

(2) *Out of the 140,005 common shares, 15,000 common shares are under the name of Albert F. del Rosario and/or Margaret Gretchen del Rosario.*

(3) *Includes PLDT common shares that have been lodged with the PDTC and PLDT common shares underlying ADSs held by JP*

Morgan Asset Holdings Limited.

The aggregate number of shares of common and preferred stock directly and indirectly owned by directors, key officers and advisors listed above, as at April 12, 2010, was 500,524 and 6,685 respectively, or approximately 0.268% and less than 0.001% of PLDT s outstanding shares of common and preferred stock, respectively.

Board of Directors Independent Directors

At least four of our directors, namely, Rev. Fr. Bienvenido F. Nebres, S.J., Oscar S. Reyes, Pedro E. Roxas and Alfred V. Ty, are independent directors who are neither officers nor employees of PLDT or any of its subsidiaries, and who are free from any business or other relationship with PLDT or any of its subsidiaries which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out their responsibilities as independent directors. The independence standards/criteria are provided in our By-Laws and Manual on Corporate Governance pursuant to which, in general, a director may not be deemed independent if such director is, or in the past five years had been, employed in an executive capacity by us or any company controlling, controlled by or under common control with us or he is, or within the past five years had been, retained as a professional adviser by us or any of our related companies, or he is not free from any business or other relationships with us which could, or could reasonably be perceived, to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees

Our board of directors is authorized under the by-laws to create committees, as it may deem necessary. We currently have four board committees, namely, the audit, governance and nomination, executive compensation and technology strategy committees, the purpose of which is to assist our board of directors. Each of these committees has a board-approved written charter that provides for such committee s composition, membership qualifications, functions and responsibilities, conduct of meetings, and reporting procedure to the board of directors.

Audit Committee

Our audit committee is composed of three members, all of whom are independent directors, namely, Rev. Fr. Bienvenido F. Nebres, S.J., who chairs the committee, Mr. Pedro E. Roxas and Mr. Oscar S. Reyes. Mr. Tatsu Kono, a non-independent member of our board of directors, Mr. Roberto R. Romulo, an independent member of our advisory board/committee, and Ms. Corazon de la Paz-Bernardo, a former member of our board of directors, serve as advisors to the audit committee. All of the members of our audit committee are financially literate and Ms. Corazon S. de la Paz-Bernardo, an advisor to the audit committee, is an accounting and financial management expert.

As provided for in the audit committee charter, the purpose of the audit committee is to assist our board of directors in fulfilling its oversight responsibilities for: (i) PLDT s accounting and financial reporting principles and policies and internal audit controls and procedures; (ii) the integrity of PLDT s financial statements and the independent audit thereof; (iii) PLDT s compliance with legal and regulatory requirements; and (iv) the performance of the internal audit organization and the external auditors.

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To carry its direct responsibility for the appointment, setting of compensation, retention and removal of the external auditors, the audit committee has the following duties and powers:

- to review and evaluate the qualifications, performance and independence of the external auditors and the lead partner of the external auditors;
- to select and appoint the external auditors and to remove or replace the external auditors;
- to review and approve in consultation with the head of the internal audit organization and the chief financial advisor the fees charged by the external auditors for audit and non-audit services;
- to pre-approve all audit and non-audit services to be provided by and all fees to be paid to the external auditors;
- to ensure that the external auditors prepare and deliver annually the statement as to independence, to discuss with the external auditors any relationships or services disclosed in such statements that may impact the objectivity, independence or quality of services of said external auditors and to take appropriate action in response to such statement to satisfy itself of the external auditor s independence;
- to ensure that the external auditors or the lead partner of the external auditors having the primary responsibility for the audit of PLDT s accounts is rotated at least once every five years;
- to advise the external auditors that they are expected to provide the committee a timely analysis of significant/critical financial reporting issues and practices;
- to obtain assurance from the external auditors that the audit was conducted in a manner consistent with the requirement under applicable rules; and
- to resolve disagreements between management and the external auditors regarding financial reporting.

The audit committee also has the authority to retain or obtain advice from special counsel or other experts or consultants in the discharge of their responsibilities without the need for board approval.

Governance and Nomination Committee

Our governance and nomination committee is composed of five voting members, all of whom are regular members of our Board of Directors and three non-voting members, including Former Chief Justice Artemio V. Panganiban, who serves as an independent non-voting member. Three of the voting members are independent directors namely, Rev. Fr. Bienvenido F. Nebres, S.J., Mr. Alfred V. Ty and Mr. Oscar S. Reyes. Two are non-independent directors namely, Mr. Tatsu Kono and Mr. Manuel V. Pangilinan who is the chairman of this committee. Former Chief Justice Artemio V. Panganiban, Mr. Victorico P. Vargas and Atty. Ma. Lourdes C. Rausa-Chan are the non-voting members.

The principal functions and responsibilities of our governance and nomination committee are:

1. To develop and recommend to the board for approval and oversee the implementation of corporate governance principles and policies;
2. To review and evaluate the qualifications of the persons nominated for election as directors (including independent directors) or other positions requiring board appointment;
3. To identify the qualified nominees and recommend that the board select and recommend such qualified nominees for election as directors/independent directors at the annual meeting of shareholders; and
4. To provide an assessment on our board s effectiveness in the process of replacing or appointing new directors or members of the board committees.

Executive Compensation Committee

Our executive compensation committee is composed of five voting members, all of whom are regular members of our Board of Directors, and one non-voting member. Three of the voting members are independent directors, namely Mr. Pedro E. Roxas, Mr. Oscar S. Reyes and Mr. Alfred V. Ty, and two are non-independent directors, namely, Mr. Tatsu Kono and Mr. Albert F. del Rosario, who is chairman of this committee. Mr. Victorico P. Vargas is a non-voting member.

The principal functions and responsibilities of our executive compensation committee are:

1. To provide guidance to and assist our board of directors in developing a compensation philosophy or policy consistent with our culture, strategy and control environment;

2. To oversee the development and administration of our compensation programs; and
3. To review and approve corporate goals and objectives relevant to the compensation of our chief executive officer, evaluate the performance of our chief executive officer in light of those goals and objectives, and set the compensation level of our chief executive officer based on such evaluation.

Technology Strategy Committee

Our technology strategy committee is composed of six members, all of whom are voting members. One of the members is an independent director, namely Mr. Oscar S. Reyes, and four are non-independent directors, namely Mr. Manuel V. Pangilinan, who serves as chairman, Mr. Napoleon L. Nazareno, Mr. Ray C. Espinosa and Mr. Tatsu Kono. Mr. Orlando B. Vea, a member of our advisory board/committee, is the sixth member of this committee.

The principal functions and responsibilities of our technology strategy committee are:

1. To review and approve our technology strategy and roadmap, and to review and advise our board on major technology trends and strategies;
2. To evaluate and advise our board on actual and proposed technology investments and transactions;
3. To review and submit to the board recommendations regarding management s formulation and execution and overall performance in achieving technology-related strategic goals and objectives; and
4. To recommend to the board approaches to acquiring and maintaining technology positions and maximizing our access to relevant technologies, and to ensure optimized contribution of technology to our business strategy and growth targets.

Effective June 12, 2007, our board of directors dissolved the finance committee, since, for several years thereto, all financial transactions which were within the authority of the finance committee to review and/or approve were elevated directly to our board.

Directors and Officers Involvement in Certain Legal Proceedings

The following is a description of the cases in which our Chairman, Manuel V. Pangilinan, President and Chief Executive Officer, Mr. Napoleon L. Nazareno, director, Mr. Albert F. del Rosario and Corporate Secretary, Ms. Ma. Lourdes C. Rausa-Chan are respondents:

1. Mr. Manuel V. Pangilinan, in his capacity as Chairman of the Board of Metro Pacific Corporation, a stockholder of Metro Tagaytay Land Company, Inc., or MTLCI, and four other individuals were respondents in I.S. 04-A-1057 for alleged violation of Article 315 (1)(b), or Estafa, of the Revised Penal Code filed by Mr. Vicente A. Tuason on behalf of Universal Leisure Club, Inc. (ULCI) and Mr. Jose L. Merin in behalf of Universal Rightfield Property Holdings, Inc. (URPHI).

In the complaint-affidavit, Messrs. Tuason and Merin alleged that, in violation of the trust reposed by ULCI and certain contractual commitments and representations, MTLCI, with the participation and/or conformity of the respondents, misappropriated and converted Php139 million that ULCI entrusted for the purpose of incorporating Golf Land Co., Inc. (GLCI), a corporation to be wholly-owned by MTLCI and to which a property of MTLCI was to be transferred in exchange for shares in GLCI. The said shares were then supposed to be transferred to ULCI.

On March 25, 2004, Mr. Pangilinan submitted his counter-affidavit in I.S. No. 04-A-1057, including the counter-charges against Messrs. Tuason and Merin for Perjury and Unjust Vexation.

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In a Joint Resolution dated June 7, 2004, the City Prosecution Office of Makati dismissed all charges in the Estafa case against Mr. Pangilinan as well as the counter-charges for Perjury and Unjust Vexation against Messrs. Tuason and Merin.

On November 16, 2004, MTLCI, through Mr. Pangilinan and ULCI, through Messrs. Tuason and Merin, filed with the Philippine Department of Justice, or DOJ, their respective Petitions for Review assailing the Resolution of the City Prosecution Office of Makati. Thereafter, the complainants and respondents including Mr. Pangilinan filed, with the assistance of their respective counsels, a Joint Motion to Dismiss (with prejudice) the charges and counter-charges that are subject of the investigation before the DOJ.

While the DOJ has not resolved the Joint Motion to Dismiss as at the date of this annual report, it issued a Resolution dated March 6, 2008 dismissing the petition in I.S. No. 04-A-1057 on the ground that the City Prosecutor of Makati City did not commit any error in dismissing the criminal complaint for Estafa of ULCI et. al. against Mr. Pangilinan and four other individuals. Since ULCI et. al. did not file any motion for reconsideration or appeal (petition for certiorari) of the March 6, 2008 DOJ Resolution, the dismissal of the complaint against Mr. Pangilinan et. al. has become final.

2. Mr. Napoleon L. Nazareno, in his capacity as President and Chief Executive Officer of Smart, is a respondent in a complaint docketed as I.S. 07-3216-F filed with the Cebu City Prosecutor s Office by Integrated Distribution Network, Inc., or IDNI, for alleged estafa and violation of R.A. 8484 or the Access Devices Regulation Act of 1988 . IDNI alleged that Smart, through its directors and officers including Mr. Nazareno (respondent in this complaint), perpetrated fraud by blocking the SIM cards of its sub-dealers. The dispute arose from contracts executed between Smart and IDNI on roving billboards. The parties entered into a settlement agreement allowing IDNI to purchase electronic loads from Smart within a specific period and for a specified amount. It is Smart s position that IDNI s cause of action, if any, is purely civil in nature.

The Cebu City Prosecutor s Office issued a Resolution dated November 12, 2007, finding probable cause to indict respondents for estafa and violation of R.A. 8484. On January 10, 2008, Mr. Nazareno filed a Petition for Review before the DOJ seeking the reversal of the Resolution mentioned above. On May 13, 2008, the DOJ issued a Resolution granting the Petition for Review. In said Resolution, the DOJ directed the Prosecutor of Cebu City to cause the withdrawal of the complaint for estafa and violation of R.A. 8484, if any has been filed in court, against Mr. Nazareno.

On July 15, 2008, the complainant filed a Motion for Reconsideration of the aforementioned DOJ Resolution and on October 3, 2008, Mr. Nazareno together with the other respondents filed their Opposition. On April 29, 2009, the DOJ issued a Joint Resolution dismissing IDNI s Motions for Reconsideration, thereby affirming the dismissal of the charges against the respondents.

3. Messrs. Napoleon L. Nazareno and Albert F. del Rosario and other directors and officers of the former PDCP Bank and some officers of the Bangko Sentral ng Pilipinas and Development Bank of the Philippines, are respondents in a complaint docketed as I.S. No. 2004-631 filed by Chung Hing Wong/Unisteel/Unisco Metals, Inc. with the DOJ, for alleged syndicated estafa, estafa through falsification of documents, other deceits, malversation and robbery. In the complaint-affidavit, the complainant alleged that the officers and directors of PDCP Bank deceived the complainant to secure a loan from PDCP Bank through misrepresentation and with the sinister purpose of taking over the complainant s corporation. As stated in their respective counter-affidavits, the charges against the PDCP directors including Messrs. Nazareno and del Rosario are manifestly unmeritorious. These directors have not personally met the complainant, nor are they parties to the questioned transactions and, as such, could not have deceived the complainant in any manner. The complaint was referred to the Office of the Ombudsman, or OMB, by the DOJ on October 30, 2007 considering that some of the respondents are public officers and the offenses charged were committed in the performance of their official functions.

Meanwhile, on July 23, 2008, Chung Hing Wong filed with the DOJ a Motion for Reconsideration of the Resolution of the DOJ dated September 7, 2007 dismissing his complaint. It appears that prior to forwarding the case records to the OMB, the DOJ had prepared a Resolution recommending the dismissal of the complaint but did not release the said Resolution to the parties because it wanted the OMB to conduct a review of the DOJ Resolution in view of the fact that some of the respondents in the case are public officers.

In an Order dated July 30, 2008, the OMB confirmed that it was conducting a review of the said DOJ Resolution for the abovestated reason and that its authority relative to the case forwarded to it by the DOJ is limited to a review of the DOJ Resolution and not to conduct another preliminary investigation of the case.

On November 19, 2009, Messrs. Nazareno and del Rosario et. al., through counsel, received a copy of the Review and Recommendation dated November 28, 2008 of the OMB. In the said Review and Recommendation, the OMB approved the DOJ Resolution dated September 7, 2007 dismissing the complaint and referred the case back to the DOJ for appropriate action.

Subsequently, on December 7, 2009, Messrs. Nazareno and del Rosario et. al., through counsel, received a copy of the Motion for Reconsideration of the Resolution of the DOJ dated September 7, 2007 filed by Chung Hing Wong/Unisteel/Unisco Metals, Inc. As at the date of this annual report, the DOJ/OMB has yet to act on the said Motion for Reconsideration.

4. Mr. Albert F. del Rosario and other former directors/officers, and Ms. Ma. Lourdes C. Rausa-Chan and other former corporate secretaries/assistant corporate secretaries of Steniel Cavite Packaging Corporation, Metro Paper and Packaging Products, Inc., AR Packaging Corporation and Starpack Philippines Corporation, are respondents in a case docketed as OMB C-C-04-0363-H (CPL No. C-04-1248), in the OMB. The complaint is for alleged: (a) violation of R.A. 3019 (otherwise known as the Anti-Graft and Corrupt Practices Act); (b) estafa thru falsification of public documents; (c) falsification of public documents under Article 171, in relation to Article 172, of the Revised Penal Code (RPC); (d) infidelity in the custody of public documents under Article 226 of the RPC; and (e) grave misconduct. It relates to various tax credit certificates (allegedly fraudulent, with spurious and fake supporting documents) issued to Victory Textile Mills, Inc. (allegedly, a non-existent corporation with fictitious incorporators and directors) and transferred to several companies including the aforesaid companies. The complaints against Mr. del Rosario and Ms. Rausa-Chan involve the first two offenses only and in their capacity as director and corporate secretary, respectively, of Metro Paper and Packaging Products, Inc. In the opinion of the legal counsels of Mr. del Rosario and Ms. Rausa-Chan, there are no legal and factual bases for their inclusion as respondents in this complaint. Mr. del Rosario and Ms. Rausa-Chan had no participation or involvement in the alleged anomalous acquisition and transfer of the subject tax credit certificates. As at the date of this annual report, the case is still pending with the OMB.

Employees and Labor Relations

As at December 31, 2009, we had 29,035 employees within the PLDT Group, with 5,507, 7,947 and 15,581 employees in our wireless, fixed line and ICT groups, respectively. PLDT had 7,543 employees as at December 31, 2009, of which 33% were rank-and-file employees, 61% were management/supervisory staff and 6% were executives. This number represents a decrease of 47, or approximately 1%, from the staff level as at December 31, 2008, mainly as a result of the ongoing manpower rightsizing program. From a peak of 20,312 employees, as at December 31, 1994, PLDT s number of employees declined by 12,769 employees, or 63%, as at December 31, 2009.

We and our business units had the following employees as at December 31 of each of the following years:

	2009	**2008**	**2007**
PLDT Group	29,035	29,904	30,255
Wireless	*5,507*	*5,602*	*5,415*
Fixed Line	*7,947*	*7,813*	*8,080*
ICT	*15,581*	*16,489*	*16,760*
PLDT Only	7,543	7,590	7,909

The decrease in the number of employees within the PLDT Group from 2008 to 2009 primarily resulted from the reduction in the number of employees in our knowledge processing solution and customer interaction solution businesses.

PLDT has three employee unions, the members of which in the aggregate 5,268 represent 18% of the employees of the PLDT Group. We consider our relationship with our rank-and-file employees union, our supervisors union and our sales supervisors union to be good.

On October 7, 2009, PLDT and the *Manggagawa ng Komunikasyon sa Pilipinas*, or MKP, our rank-and-file employees union, concluded and signed a new three-year Collective Bargaining Agreement, or CBA, covering the period from November 9, 2009 to November 8, 2011. This CBA provides each member a signing bonus equivalent to one month s salary (computed at the salary rate prevailing prior to November 9, 2009) plus Php15,000; expeditious agreement bonus of Php20,000; increase of the monthly salary of Php2,500, Php2,600 and Php2,800 for the first, second and third year, respectively; an increase in the yearly Christmas gift certificate from Php8,000 to Php9,000; an increase in the amount of coverage under the group life insurance plan from Php650,000 to Php750,000; and Php45,000 funeral assistance for the death of a dependent. Other provisions of this CBA include increases in the rice subsidy and professional fee for dependent s hospitalization.

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

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

Pension and Retirement Benefits

Defined Benefit Pension Plans

We have defined benefit pension plans, covering substantially all of our permanent and regular employees, except the employees of Smart and its subsidiary, I-Contacts. The plans require contributions to be made to a separate administrative fund.

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

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

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

Defined Contribution Plan

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

We spent Php1,306 million for pension, retirement and similar benefits for our employees for the year ended December 31, 2009. In addition, Php493 million was recognized in respect of the enhanced separation package of 220 employees who were covered by PLDT s manpower rightsizing program. For more information about the benefit plan including the total amount set aside to provide pension retirement or similar benefits, see *Note 5 Income and Expenses and Note 25 Share-based Payments and Employee Benefits* to the accompanying consolidated financial statements in Item 18.

Item 7. Major Shareholders and Related Party Transactions

The following table sets forth information regarding ownership of shares of PLDT s common stock as at April 12, 2010, of all shareholders known to us to beneficially own more than 5% of PLDT s shares of common stock, or, collectively, our Major Shareholders. All shares of PLDT s common stock have one vote per share. Our Major Shareholders do not have voting rights that are different from other holders of shares of PLDT s common stock.

Title of Class	Name and Address of Record Owner and Relationship With Issuer	Place of Incorporation	Name of Beneficial Owner and Relationship with Record Owner	Number of Shares Held of Record	Percentage of Class
Common	Philippine Telecommunications Investment Corporation[(1)] 12th Floor Ramon Cojuangco Bldg. Makati Avenue, Makati City	Philippine Corporation	Same as Record Owner	26,034,263[(2)]	13.94
Common	Metro Pacific Resources, Inc.[(3)] c/o Corporate Secretary 18th Floor, Liberty Center, 104 H. V. dela Costa St. Salcedo Village, Makati City	Philippine Corporation	Same as Record Owner	15,745,172[(2)]	8.43
Common	NTT Communications Corporation[(4)] 1-1-6 Uchisaiwai-cho 1-Chome, Chiyoda-ku Tokyo 100-8019, Japan	Japanese Corporation	See Footnote (5)	12,633,487[(6)]	6.76
Common	NTT DoCoMo, Inc.[(6)] 41st Floor, Sanno Park Tower 2-11-1 Nagata-cho, Chiyoda-ku Tokyo	Japanese Corporation	See Footnote(5)	18,234,821[((7)]	9.76

	100-6150, Japan				
Common	Social Security System[8] SSS Building East Avenue, Quezon City	Philippine Corporation	Same as Record Owner	5,024,788[9]	2.69
Common	PCD Nominee Corporation[10] 37/F Enterprise Building, Tower I Ayala Avenue cor. Paseo de Roxas St. Makati City	Philippine Corporation	See Footnote (10)	58,972,458	31.57

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Title of Class	Name and Address of Record Owner and Relationship With Issuer	Place of Incorporation	Name of Beneficial Owner and Relationship with Record Owner	Number of Shares Held of Record	Percentage of Class
Common	J. P. Morgan Asset Holdings (HK) Limited[11] (various accounts) 20/F Chater House 8 Connaught Road Central, Hongkong	HongKong Corporation	See Footnote (11)	45,098,829	24.14
Common	Capital Research Global Investors[12]	Delaware Corporation	See Footnote (12)	14,612,760	7.82
Common	Lazard Asset Management LLC[13]	Delaware Corporation	See Footnote (13)	11,276,352	6.04

(1) *Based on a resolution adopted by the Board of Directors of PTIC, the Chairman of the Board of PTIC, Mr. Manuel V. Pangilinan, has the continuing authority to represent PTIC at any and all meetings of the stockholders of a corporation in which PTIC owns of record or beneficially any shares of stock or other voting security, and to sign and deliver, in favor of any person he may deem fit, a proxy*

or other power of attorney, with full power of delegation and substitution, authorizing his designated proxy or attorney-in-fact to vote any and all shares of stock and other voting securities owned of record or beneficially by PTIC at any and all meetings of the stockholders of the corporation issuing such shares of stock or voting securities.

(2) *First Pacific Group beneficially owned 26% of the outstanding common stock of PLDT as at April 12, 2010 by virtue of PLDT common shareholdings by intermediate holding companies, including PTIC and MPRI.*

(3) *Based on a resolution adopted by the Board of Directors of MPRI, Mr. Manuel V. Pangilinan has been appointed as proxy or duly authorized*

representative of MPRI to represent and vote the PLDT shares of common stock of MPRI in the Annual Meeting of PLDT.

(4) *Based on publicly available information, NTT Communications is a wholly-owned subsidiary of NTT. Based on a certification signed by a duly authorized officer of NTT Communications, Mr. Jun Sawada is authorized to execute for and on behalf of NTT Communications, endorsements, transfers and other matters relating to the PLDT shares of common stock held by NTT Communications.*

(5) *In publicly available reports filed by NTT Communications and NTT DoCoMo, it is stated that because of NTT s ownership of all the outstanding capital stock of NTT Communications and a majority of the common stock of NTT DoCoMo,*

NTT, NTT Communications and NTT DoCoMo may be considered to constitute a group within the meaning of Section 13(d)(3) of the U.S Securities Exchange Act of 1934, as amended. Therefore, each of them may be deemed to have beneficial ownership of the 39,401,561 shares in aggregate held by NTT Communications and NTT DoCoMo, representing approximately 21% of the outstanding common stock of PLDT as at April 12, 2010.

(6) *Based on publicly available information, NTT DoCoMo, is a majority-owned and publicly traded subsidiary of NTT. Based on a certification signed by a duly authorized officer of NTT DoCoMo, Mr. Toshinari Kunieda or Mr. Mutsuo Yamamoto, is authorized to execute for and*

on behalf of NTT DoCoMo, endorsements, transfers and other matters relating to the PLDT shares of common stock held by NTT DoCoMo.

(7) *The total PLDT shareholdings of NTT DoCoMo is 26,768,074 shares, of which 18,234,821 are owned on record by NTT DoCoMo, and 8,533,253 are shares underlying American Depository Shares, collectively representing 14.33% of the outstanding common stock of PLDT as at April 12, 2010.*

(8) *Based on a resolution adopted by the Board of Directors of the SSS, Mr. Thelmo Y. Cunanan, as Chairman of the SSS, has been authorized to sign the proxy constituting the lawful attorney/proxy of SSS with power to represent and vote the PLDT shares of common stock of SSS in the*

Annual Meeting of PLDT.

(9) *The total PLDT shareholdings of SSS is 10,696,990 shares of PLDT of which 5,024,788 are owned on record by SSS and 5,672,202 shares are held on record by PCD, representing 5.73% of the outstanding common stock of PLDT as at April 12, 2010.*

(10) *PCD is the registered owner of shares held by participants in the Philippine Depository and Trust Co., or PDTC, a private company organized to implement an automated book entry system of handling securities transactions in the Philippines. Under the PDTC procedures, when an issuer of a PDTC-eligible issue will hold a stockholders meeting, the PDTC will execute a pro-forma proxy in favor of its participants for the total number of shares in their*

respective principal securities account as well as for the total number of shares in their client securities account. For the shares held in the principal securities account, the participant concerned is appointed as proxy with full voting rights and powers as registered owner of such shares. For the shares held in the client securities account, the participant concerned is appointed as proxy, with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by such clients. Based on available information, none of the owners of the PLDT common shares registered under the name of PCD, owned more than 5% of PLDT s outstanding common stock as at April 12, 2010, *except The Hongkong and Shanghai Banking Corp. Ltd. Clients, which owned approximately 18.27% of PLDT s outstanding common stock as of such date. PLDT has no knowledge if any beneficial owner of the shares under The Hongkong and Shanghai Banking Corp. Ltd. Clients owned more than 5% of PLDT s outstanding common stock as at April 12, 2010.*

The PCD account also includes 5,672,202 shares of PLDT common stock beneficially owned by the SSS.

(11) *Holds shares as nominee of JPMorgan Chase Bank, successor depositary under the Common Stock Deposit Agreement, dated October 14, 1994, as amended on February 10, 2003, between JPMorgan Chase Bank and the holders of ADRs evidencing ADSs, representing shares of common stock of PLDT (the Deposit Agreement). Under the Deposit Agreement, if the depositary does not receive voting instructions from a holder of ADRs, such holder will be deemed to have instructed the depositary to provide a discretionary proxy to a person designated by PLDT for the purpose of exercising the*

voting rights pertaining to the shares of common stock represented by such holder of ADRs, except that no discretionary proxy will be given with respect to any matter as to which substantial opposition exists or which materially and adversely affects the rights of the holders of such ADRs.

This account also includes 2,249,100 shares of PLDT common stock underlying ADSs beneficially owned by Capital Research Global Investors, 8,533,253 shares of PLDT common stock underlying ADS beneficially owned by NTT DoCoMo, and 11,276,352 shares of PLDT common stock underlying ADSs beneficially owned by Lazard Asset Management LLC, or LAMLLC.

(12) *According to the Schedule 13G/A of Capital Research Global Investors, or CRGI, filed with the U.S. Securities and Exchange Commission on February 12, 2010, CRGI, as an investment adviser, beneficially owned 14,944,540 shares of PLDT common stock out of which 2,249,100 shares are underlying ADSs. In an email to PLDT dated April 21, 2010, Mr. Christopher Aquino of CRGI confirmed that as of April 12, 2010, CRGI beneficially owned 14,612,760 shares of PLDT common stock, of which 2,249,100 shares are underlying ADSs.*

(13) *According to the Schedule 13G of LAMLLC filed with the U.S. Securities and Exchange Commission on*

February 5, 2010, LAMLLC, as an investment adviser, beneficially owned 11,276,352 shares of PLDT common stock.

As at April 12, 2010, approximately 86.29% of the outstanding capital stock of PLDT was registered in the names of Philippine persons.

Related Party Transactions

For a detailed discussion of our material related party transactions, see *Note 24 Related Party Transactions* to the accompanying consolidated financial statements in Item 18.

Except for the transactions discussed in *Note 24 Related Party Transactions* to the accompanying consolidated financial statements in Item 18, there were no other material related party transactions during the last three financial years, nor are there any material transactions currently proposed between PLDT and any: (i) any director, officer, direct or indirect owner of 10% or more of the outstanding shares in PLDT; (ii) any close family member of such director, officer or owner; (iii) associates of PLDT; (iv) enterprises controlling, controlled by or under common control with PLDT; or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any director, officer or owner of 10% or more of the outstanding shares in PLDT or any close family member of such director, key officer or owner, or collectively, the Related Parties.

There was no outstanding indebtedness at any time during the last three financial years that was owed to PLDT and/or its subsidiaries by any Related Party.

Item 8. Financial Information

Consolidated Financial Statements and Other Financial Information

Consolidated financial statements are set forth under Item 18. Financial Statements.

Legal Proceedings

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

NTC supervision and regulation fees, or SRF

Since 1994, following the rejection of PLDT s formal protest against the assessments by the NTC of SRF, PLDT and the NTC had been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT s opinion, which was upheld by the Court of Appeals, but, as set forth below, rejected by the Supreme Court, was that the SRF should be computed based only on the par value of the subscribed or paid up capital of PLDT, excluding stock dividends, premium or capital in excess of par. The Supreme Court, in its decision dated July 28, 1999, ordered the NTC to make a recomputation of the SRF based on PLDT s capital stock subscribed and paid. Subsequently, in February 2000, the NTC issued an assessment letter for the balance of the SRF, but in calculating said fees, the NTC used as a basis not only capital stock subscribed or paid but also the stock dividends. PLDT questioned the inclusion of the stock dividends in the calculation of the SRF and sought to restrain the NTC from enforcing/implementing its assessment until the resolution of the said issue. Prior to the resolution of the issue mentioned above, PLDT paid the SRF due in 2000 together with the balance due from the recalculation of the SRF and had been paying the SRF due in September of each year thereafter, excluding the portion that was based on stock dividends.

The Supreme Court, in a resolution promulgated on December 4, 2007, upheld the NTC assessment of SRF based on outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT in February 2008, the NTC assessed the total amount of SRF due from PLDT to be Php2,870 million, which included penalties and interest. On April 3, 2008, PLDT complied with the Supreme Court resolution by paying to the NTC the outstanding principal amount relating to SRF on stock dividends in the amount of Php455 million, but not including penalties and interest. PLDT believes that it is not liable for penalties and interest, and therefore protested and disputed NTC s assessments in the total amount of Php2,870 million which included penalties. In letters dated April 14, 2008 and June 18, 2008, the NTC demanded payment of the balance of its assessment. On July 9, 2008, PLDT filed a Petition for Certiorari and Prohibition with the Court of Appeals (the Petition) praying that the NTC be restrained from enforcing or implementing its assessment letter of February 2008, and demand letters dated April 14, 2008 and June 18, 2008, all demanding payment of SRF including penalties and interests. The Petition further prayed that after notice and hearing, the NTC be ordered to forever cease and desist from implementing and/or enforcing, and annulling and reversing and setting aside, the said assessment letter and demand letters. On September 8, 2008, the Solicitor General, as counsel of, and representing, the NTC, filed its Comment on the Petition. On September 22, 2008, PLDT filed its Reply (To the Comment of the NTC).

On January 26, 2010, the Court of Appeals issued a resolution directing the parties to submit their respective memoranda within 15 days from notice thereof. After requesting for an extension, PLDT filed its memorandum on February 18, 2010. PLDT, through counsel, received the memorandum of the NTC on February 25, 2010. With the submission of the parties respective memoranda, the petition is now deemed submitted for resolution.

Matters Relating to a Third Party Aggregator

In late 2009, PLDT informally received a communication which provided a complaint, or the Draft, setting forth a securities class action lawsuit in the United States District Court for the Southern District of New York against PLDT and certain PLDT officers and indicated that such Draft may be filed against PLDT. The Draft alleges that some PLDT officers and employees caused PLDT s subsidiary Smart to enter into contracts with a third-party entity in order to divert long distance telephone traffic and profits to such third-party entity. The Draft further alleges that these officers and employees personally created and controlled the third-party entity and were personally enriched as a result. The Draft alleges that this alleged scheme was accomplished by causing Smart to offer a lower rate for long distance telephone traffic to that third-party entity so that long distance traffic which otherwise would have been handled by PLDT at a higher rate was redirected to equipment owned by the third-party entity. The Draft alleges that PLDT failed to disclose material facts regarding the alleged scheme and that, as a result, PLDT misstated its true financial condition in its annual reports from 2002 through 2008.

In light of the nature of the allegations and out of an abundance of caution, PLDT s Board of Directors referred the Draft for review by the Audit Committee. The Audit Committee appointed an independent Investigation Committee to oversee an investigation into the allegations contained in the Draft. The Audit Committee retained independent counsel to lead in the investigation. To preserve the confidential nature of the inquiry, the investigation was limited to internal sources at PLDT, including current PLDT and Smart employees, internal records and discrete inquiries and public records searches.

The independent counsel, under the oversight of the Investigation Committee, has concluded on the basis of the evidence within the control of PLDT or otherwise reasonably available, that (i) while the investigation cannot definitively exclude the possibility, the investigation has found no evidence to establish that PLDT s officers and employees were personally involved in the creation of the third-party entity referred to in the Draft and has found no evidence of any improper personal financial benefit or gain by these officers and employees, directly or indirectly from such third party entity; and (ii) while Smart had substantial business relationships with various third-party aggregators of long-distance telephone traffic during the relevant period, including the third-party entity referred to in the Draft (with which Smart ceased doing business in 2008), there is no evidence that the relationship with such third-party entity in fact resulted in a material adverse impact on PLDT s revenues during the relevant period and may have in fact benefited PLDT overall through an increase in overall call volume.

On May 7, 2010, the Audit Committee of PLDT approved the recommendation and conclusion of the independent counsel, as endorsed by the Investigation Committee. No provision has been made related to this matter.

Taxation

National Internal Revenue Taxes

PLDT has filed various cases against the Commissioner of the Bureau of Internal Revenue for refunds and/or tax credit of erroneously paid value-added taxes, compensating taxes, advance sales taxes and other internal revenue taxes on PLDT s importation of various equipment, machinery, and spare parts.

In the case of the claim for refund of erroneously paid value-added taxes, compensating taxes, advance sales taxes and other internal revenue taxes on PLDT s importation of various equipment, machinery and spare parts, the Supreme Court, on December 15, 2005, rendered a decision partially granting the claim for refund or tax credit certificates and ordering the Commissioner of Internal Revenue, or CIR, to issue a Tax Credit Certificate or to refund to PLDT Php95 million representing erroneously collected advance sales tax and compensating tax. A Writ of Execution dated October 2, 2008 has been issued by the Second Division of the Court of Tax Appeals addressed to the CIR. The processing for the issuance of the Tax Credit Certificate is still being undertaken by the Bureau of Internal Revenue as at December 31, 2009.

Local Business and Franchise Taxes

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

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

For more information, see *Note 27 Provisions and Contingencies* to the accompanying consolidated financial statements in Item 18.

Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI

Since 1990 (up to present), PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. While they have entered into Compromise Agreements in the past (one in February 1990, and another one in March 1999), these agreements have not put to rest their issues against each other. Accordingly, to avoid further protracted litigation and simply improve their business relationship, both PLDT and ETPI have agreed in April 2008 to submit their differences and issues to voluntary arbitration. For this arbitration (after collating various claims of one party against the other) ETPI, on one hand, initially submitted its claims of about Php2.9 billion against PLDT; while PLDT, on the other hand, submitted its claims of about Php2.8 billion against ETPI. Currently, PLDT and ETPI have agreed to suspend the arbitration proceedings between them.

Other disclosures required by *IAS 37, Provisions, Contingent Liabilities and Contingent Assets* were not provided as it may prejudice our position in on-going claims, litigations and assessments.

For more information, see *Note 27 Provisions and Contingencies* to the accompanying consolidated financial statements in Item 18.

Dividend Distribution Policy

Please see Item 3. Key Information Dividends Declared for a description of our dividend distribution policy, and *Note 19 Equity* to the accompanying consolidated financial statements in Item 18 for tables that show dividends declared in 2009.

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Item 9. The Offer and Listing

Common Capital Stock and ADS

The shares of common stock of PLDT are listed and traded on the Philippine Stock Exchange, or PSE, and, prior to October 19, 1994, were listed and traded on the American Stock Exchange and Pacific Exchange in the United States. On October 19, 1994, an ADR facility was established, pursuant to which Citibank, N.A., as the Depositary, issued ADRs evidencing ADSs with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary of PLDT s ADR Facility. The ADSs are listed on the NYSE and are traded on the NYSE under the symbol of PHI .

For the period from January 1 to April 12, 2010, a total of 8.8 million shares of PLDT s common capital stock were traded on the Philippine Stock Exchange. During the same period, the volume of trading was 4.1 million ADSs on the NYSE.

As at April 12, 2010, 10,610 stockholders were Philippine persons and held approximately 36% of PLDT s common capital stock. In addition, as at April 12, 2010, there were a total of approximately 49 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 342 holders.

High and low sales prices for PLDT s common shares on the PSE and ADSs on the NYSE for each of the five most recent fiscal years, each full quarterly period during the two most recent fiscal years, and each month in the most recent six months were as follows:

	Philippine Stock Exchange		New York Stock Exchange	
	High	**Low**	**High**	**Low**
2010				
First Quarter	Php 2,775.00	Php 2,420.00	US$ 60.65	US$ 53.05
January	2,775.00	2,600.00	60.65	55.97
February	2,665.00	2,500.00	56.44	53.09
March	2,695.00	2,420.00	58.80	53.05
Second Quarter				
April	2,540.00	2,425.00	57.49	53.01
May (until May 12, 2010)	2,530.00	2,440.00	56.38	53.07
2009	2,670.00	1,830.00	58.17	38.43
First Quarter	2,310.00	1,830.00	49.80	38.43
Second Quarter	2,620.00	2,125.00	52.16	43.01
Third Quarter	2,625.00	2,300.00	54.50	48.12
Fourth Quarter	2,670.00	2,405.00	58.17	51.12
November	2,625.00	2,450.00	57.00	51.12
December	2,645.00	2,570.00	58.17	54.70
2008	3,175.00	1,810.00	76.72	36.05
First Quarter	3,175.00	2,520.00	76.72	61.49
Second Quarter	2,820.00	2,285.00	68.96	50.95
Third Quarter	2,795.00	2,240.00	62.97	51.10
Fourth Quarter	2,725.00	1,810.00	57.38	36.05
2007	3,285.00	2,250.00	76.30	45.25
2006	2,610.00	1,675.00	51.90	32.15
2005	1,860.00	1,310.00	34.35	23.50

Item 10. Additional Information

Articles of Incorporation and By-Laws

The following summarizes certain provisions of PLDT s Articles of Incorporation and By-Laws and applicable Philippine law. This summary is qualified in its entirety by reference to the Corporation Code of the Philippines (the Corporation Code) and PLDT s Articles of Incorporation and By-Laws. Information on where investors can obtain copies of the Articles of Incorporation and By-Laws is described under the heading Documents Available.

Purpose of PLDT

PLDT s Articles of Incorporation have been filed with the Philippine SEC and PLDT has been issued Philippine SEC Reg. No. 55. The Second Article of PLDT s Articles of Incorporation provides that the purposes for which PLDT was formed are to install, maintain, and operate any and all kinds of equipment for communications; to install, maintain, operate or lease telephone lines and systems, and to purchase, sell and deal in all kinds of products which may be combined with the building, installing and operation of those systems and lines and in general, to engage in any and all acts and business which may be necessary or convenient, in the furtherance of such lines of communication and business.

Directors

PLDT s Amended By-Laws provide that the board of directors shall consist of thirteen members, each of whom must hold at least one share of the common stock of PLDT in his own name and possess the minimum qualifications and have none of the disqualifications provided in the By-Laws. There are no provisions in PLDT s Amended Articles of Incorporation or Amended By-Laws with respect to: (a) a director s power to vote on a proposal, arrangement or contract in which the director is materially interested; (b) the directors power, in the absence of an independent quorum, to vote compensation to themselves or any members of their body; (c) borrowing powers exercisable by the directors and how such borrowing powers can be varied; or (d) retirement or non-retirement of directors under an age limit requirement.

Description of PLDT Capital Stock

Authorized Capital Stock

The authorized capital stock of PLDT is Php9,395 million divided into two classes consisting of 234 million shares of Common Capital Stock with a par value of Php5 per share (the Common Stock) and 822.5 million shares of serial Preferred Stock with a par value of Php10 per share (the Preferred Stock).

Common Stock

Set out below is a statement of the dividend, voting, pre-emption and other rights of the holders of Common Stock as set out in the Articles of Incorporation and/or By-Laws of PLDT:

(a) After the requirements with respect to preferential dividends on the serial Preferred Stock shall have been met and after PLDT shall have complied with all the requirements, if any, with respect to the setting aside of sums as purchase, retirement or sinking funds, the holders of the Common Stock shall be entitled to receive such dividends as may be declared from time to time by the board of directors out of funds legally available therefor.

(b) After distribution in full of the preferential amounts to be distributed to the holders of serial Preferred Stock in the event of the voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of PLDT, the holders of Common Stock shall be entitled to receive all the remaining assets of PLDT of whatever kind available for distribution to stockholders ratably in proportion to the number of Common Stock held by them, respectively.

(c) Except as may be otherwise required by law, or by the Articles of Incorporation of PLDT, each holder of Common Stock shall have one vote in respect of each share of such stock held by him on all matters to be voted upon by the stockholders, and the holders of Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. At every election of directors, a holder of Common Stock is entitled to vote such shares of Common Stock held by him for as many persons as there are directors to be elected, or to cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or to distribute such votes on the same principle among as many candidates as he shall think fit.

In addition to the foregoing rights, the Corporation Code provides for other stockholders rights generally, which include:

(a) Appraisal right or the right of a dissenting stockholder to demand payment of the fair value of his shares of stock in the following instances: (i) in case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (ii) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets of the corporation; (iii) in case of merger or consolidation; and (iv) in case of investment of funds of the corporation in any other corporation or business or for any purpose other than the primary purpose for which it was organized, except where the investment by the corporation is reasonably necessary to accomplish its primary purpose as stated in its articles of incorporation.

(b) The right to approve certain corporate acts, such as: (i) election of directors; (ii) removal of directors; (iii) extension or shortening of the corporate term; (iv) increase or decrease of capital stock, and incurring, creating or increasing bonded indebtedness; (v) sale or other disposition of all or substantially all of the corporate assets; (vi) investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized except where the investment is reasonably necessary to accomplish its primary purpose as stated in the corporation s articles of incorporation; (vii) declaration of stock dividend; (viii) entering into a management contract with another corporation; (ix) plan of merger or consolidation; and (x) voluntary dissolution of the corporation by shortening the corporate term.

(c) The right to inspect at reasonable hours on business days the records of all business transactions of the corporation and the minutes of any meeting; however, the stockholders right to inspect corporate records and books is not an absolute right so that the corporation may deny said right on the basis of impropriety of the purpose or motive of the stockholder.

(d) The right to be furnished the most recent financial statements of the corporation, within ten (10) days from receipt by the corporation of a written request from a stockholder. The same right exists at the annual meeting of stockholders at which the board of directors must present to the stockholders a financial report of the operations of the corporation for the preceding year which shall include financial statements duly signed and certified by an independent certified public accountant.

Restrictions on Foreign Ownership

The Constitution of the Republic of the Philippines (Section 11, Article XII) states that no franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

While the Articles of Incorporation and By-Laws of PLDT do not contain any specific restriction on the sale, assignment or transfer of shares that would violate the aforecited ownership requirement, the Articles of Incorporation of PLDT provide that the board of directors shall have full power and authority to authorize (whether by adoption of amendments to the By-Laws of PLDT or of resolutions, the promulgation of rules or regulations or otherwise) the taking by said corporation of all such actions as the board of directors may deem necessary or appropriate to ensure compliance by said corporation with any applicable provision of the Constitution of the Republic of the Philippines or any other applicable law, treaty, rule or regulation relating to the ownership of securities of said corporation by citizens of the Philippines, aliens or other persons or group of persons.

Meetings

The Corporation Code requires corporations to hold an annual meeting of stockholders and to send notice thereof to stockholders. Under PLDT s By-Laws, the annual meeting of stockholders shall be held at the principal office of the corporation, or at such other place designated by the board of directors in the city or municipality where the principal office of the corporation is located, on the second Tuesday in June of each year. In the annual meeting, the board of directors shall be elected and such other business may be transacted as shall come before the meeting. At least fifteen (15) business days written or printed notice of the date, time and place of holding every annual stockholders meeting shall be given by the Secretary or by an Assistant Secretary by personal delivery or by mail to each stockholder at his or her last known place of residence or business. Special meetings of stockholders may be called at any time by the President or three (3) of the Directors or by a number of stockholders representing two-thirds (2/3) of the subscribed capital stock. Notice in writing of such meeting stating the date, time or place thereof, shall be given to each stockholder by the Secretary or Assistant Secretary or, in case of his absence, inability, refusal or neglect to act, then by the President, Directors or stockholders calling said meeting, by personal delivery or by mail to each stockholder at his or her last known place of residence, at least fifteen (15) business days before the date fixed for the meeting.

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The By-Laws of PLDT provide that each share of common stock which has voting rights on any matter under consideration may be represented at any meeting of stockholders by the holder thereof or by his attorney duly authorized by proxy in writing on forms prescribed by the board of directors which shall be furnished to a stockholder upon his request. Unless otherwise provided in the proxy, it shall be valid only for the meeting in respect of which such proxy was issued. Proxies must be filed with the Secretary, Assistant Secretary or transfer agent of PLDT at least two (2) days before the day of the meeting. Any proxy filed with the Secretary, Assistant Secretary or transfer agent of the corporation may be revoked by the stockholder concerned either in an instrument in writing duly presented to the Secretary, Assistant Secretary or transfer agent of the corporation at least two (2) days before the day of the meeting or by his personal presence at the meeting. The decision of the Secretary on the validity of proxies shall be final and binding until and unless set aside by a court of competent jurisdiction. As provided in the Corporation Code, unless otherwise provided in the proxy, it shall be valid only for the meeting for which it is intended and no proxy shall be valid and effective for a period longer than five (5) years at any one time.

The By-Laws of PLDT also provide that at any meeting of the stockholders, persons representing, in person or by proxy, a majority of the shares issued and outstanding and entitled to vote at said meeting shall constitute a quorum for the transaction of any business, except as otherwise provided by law, and except that a lesser number may adjourn the meeting.

Issues of Shares

The board of directors of PLDT has the power to authorize without seeking shareholders approval the issue and sale of authorized but unissued shares of Common Stock of said corporation for such consideration as it shall determine, provided that such consideration shall not be less than the par value of such shares and, provided further, that such issue and sale is not otherwise prohibited under applicable laws.

Under the Securities Regulation Code of the Philippines (R.A. No. 8799), or SRC, no securities except of a class exempt under the provisions thereof or unless sold in any transaction exempt under any of the provisions thereof, shall be sold or offered for sale or distribution to the public unless such securities shall have been registered and permitted to be sold pursuant to the SRC.

Transfer of Shares

The shares of Common Stock may be transferred by delivery of certificate(s) endorsed by the shareholder named in the certificate or his duly authorized attorney or representative. No transfer, however, shall be valid, except as between the parties, until the transfer is recorded in the stock and transfer books of PLDT maintained by Hong Kong and Shanghai Banking Corporation, the stock transfer agent of PLDT for its Common Stock.

Philippine law does not require transfers of Common Stock to be effected on the PSE, but any off-exchange transfers will subject the transferor to a capital gains tax that may be significantly greater than the stock transfer tax applicable to transfers effected on the PSE. All transfers of shares of Common Stock on the PSE must be effected through a licensed broker in the Philippines.

Share Certificates

Certificates representing fully paid shares of Common Stock are issued in such denominations as stockholders may request, except that certificates will not be issued for any fractional part of a share or any undivided interest in any share.

Dividends

Under the Corporation Code, the board of directors may declare dividends on the Common Stock out of the unrestricted retained earnings which may be payable in cash, in property or in stock to all stockholders on the basis of outstanding shares held by them. The declaration of stock dividends requires the approval of the stockholders of PLDT representing not less than two-thirds of the outstanding capital stock of PLDT. If a stock dividend would require an increase in the authorized capital stock, Philippine SEC approval would be required. Common Stock issued as stock dividends should be registered with and licensed by the Philippine SEC and listed on the PSE.

The Corporation Code requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite corporate expansion projects or programs approved by the board of directors; (ii) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its/his consent, and such consent has not yet been secured; or (iii) when it can be clearly shown that such retention is necessary under special circumstances relevant to the corporation, such as when there is a need for special reserve for probable contingencies.

See Item 5. Liquidity and Capital Resources Financing Activities Financing Requirements and Item 3. Key Information Dividends Declared and Key Information Dividends Paid .

Preferred Stock

Preferred Stock may be issued from time to time in one or more series as the board of directors may determine. The board of directors is authorized to establish and designate the title and number of shares of each series and to fix the terms thereof, including dividend rate, redemption and sinking fund provisions, conversion rights and the amount to be received upon liquidation, provided that the amounts payable upon redemption or liquidation may not be more than 110%, nor less than 100%, of par value, plus in each such case accrued and unpaid dividends. Except as otherwise provided by law, the holders of Preferred Stock are not entitled to vote for the election of directors or for any other purpose; provided, however, that PLDT may not change the rights of the holders of any series of Preferred Stock in any manner prejudicial to the holders thereof without the affirmative vote of the holders of a majority of the shares of such series. No such approval is needed to increase the number of shares of Preferred Stock (up to the number from time to time authorized by the Articles) or to authorize classes of shares ranking on a parity with the Preferred Stock.

Issued and Outstanding Preferred Stock

The series of Preferred Stock and the number of shares issued and outstanding under each series as at April 12, 2010 and December 31, 2009 are as follows:

	No. of Shares	
Series	**April 12, 2010**	**December 31, 2009**
Series A to EE 10% Cumulative Convertible	405,697,562	405,631,062
Series IV Cumulative Non-Convertible Redeemable	36,000,000*	36,000,000*

* *Total subscribed shares is 300 million with a total subscription price of Php3 billion, out of which amount Php360 million has been paid.*

The Series A to HH 10% Cumulative Convertible Preferred Stock are entitled to receive cumulative dividends at the rate of 10% per annum; redeemable at the option of PLDT, at par value plus accrued dividends, five years after the year of issuance; convertible to shares of Common Stock a year after the year of share issuance, at a price equivalent to 10% below the average market price of the Common Stock at the PSE over a period of 30 consecutive trading days before the conversion date; and entitled to be paid an amount equal to the par value of the shares plus accrued and unpaid dividends thereon to the date fixed for such payment in the event of a voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the affairs of the corporation.

The Series IV Cumulative Non-Convertible Redeemable Preferred Stock are entitled to receive cumulative dividends at the rate of 13.5% per annum based on the paid-up subscription price. It is redeemable at the option of PLDT one year at any time after subscription at an amount equal to the par value of such shares so redeemed or if such shares are not yet fully paid, the actual amount paid, plus accrued and unpaid dividends thereon; and in the event of a voluntary or involuntary liquidation, dissolution or winding up of affairs of PLDT, shall be entitled to be paid an amount equal to the par value of such shares or if such shares are not yet fully paid, the actual amount paid, plus an amount equal to the dividends accrued thereon to the date fixed for payment. The outstanding shares of Series IV Cumulative Non-Convertible Redeemable Preferred Stock have not been fully paid.

Shares of Series V and VI Convertible Preferred Stock were entitled to receive annual dividends of Php18.70 per share and US$0.397 per share, respectively. Each share of Series V and VI Convertible Preferred Stock was convertible at any time at the option of the holder into one share of PLDT Common Stock. On June 5, 2008 (the Mandatory Conversion Date), PLDT s outstanding shares of Series V and VI Convertible Preferred Stock issued on June 4, 2001 were mandatorily converted into shares of PLDT Common Stock at a ratio of 1:1. The remaining 122 shares of Series V Convertible Preferred Stock which were originally issued on August 22, 2002 were voluntarily converted into shares of PLDT common stock on July 23, 2009, prior to the scheduled mandatory conversion on August 23, 2009. The remaining 4 thousand shares of Series VI Convertible Preferred Stock which were originally issued on November 8, 2002 were mandatorily converted into shares of PLDT common stock on November 9, 2009. As at April 12, 2010, all of the 3 million shares, 5 million shares and 4 million shares of the Series V, VI and VII Convertible Preferred Stock, respectively, had been voluntarily and/or mandatorily converted into shares of PLDT s common stock.

Change in Control

Article V, Section 1 of PLDT s Amended By-Laws may have the effect of preventing a change in control of PLDT. This section provides that any person who is engaged in any business that competes with or is antagonistic to that of PLDT or its subsidiaries is ineligible for nomination or election to the board of directors.

Under the Cooperation Agreement, each of NTT Communications, NTT DoCoMo and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, it shall cast its vote as a PLDT shareholder in support of any resolution proposed by the PLDT board of directors for the purpose of safeguarding PLDT from any Hostile Transferee (as defined in the Cooperation Agreement). See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions .

Material Contracts

We have not entered into any contract within the two years preceding the date of this annual report which is material.

Exchange Controls and Other Limitations Affecting Securities Holders

In Circular No. 1389 dated November 10, 1993, as amended by Circular No. 224 dated January 26, 2000, of the BSP, foreign investments in the shares of stock of Philippine companies listed in the PSE may be registered either with the BSP or with an investor s designated custodian bank. The foreign investments in listed shares of stock, which are duly registered with the BSP or with a custodian bank duly designated by the foreign investor, are entitled to full and immediate capital repatriation and dividend and interest remittance privileges. Without the need to obtain prior BSP approval, commercial banks are authorized to sell and to remit the equivalent foreign exchange (at the exchange rate prevailing at the time of actual remittance) representing sales and divestment proceeds or dividends of a duly registered foreign equity investment upon presentation of a BSP Registration Document (BSRD) together with other supporting documents. The BSRD is issued by the BSP or the custodian bank upon registration of the foreign investment and serves as the authority to repatriate such divestment and sales proceeds or remittance of cash dividends. Effective April 3, 2000, only pre-numbered BSRD forms, printed on BSP security paper may be used and issued as proof of registration of foreign investments in accordance with existing BSP rules. The remitting commercial bank must submit to the BSP a statement of remittance together with the supporting documents within two banking days from date of actual remittance. Foreign investments not duly registered with the BSP or with the investor s designated custodian bank are not entitled to repatriation and remittance privileges through the banking system except capital repatriation or dividend remittance of direct foreign equity investments made prior to March 15, 1973 when BSP registration was not yet required. The BSP should be notified of the transfer of sale of foreign investments in equity or securities already registered with the BSP, in order that the registration of the foreign investment may be transferred in the name of the transferee or purchaser.

Cash dividends on PLDT s stock are paid in Philippine peso, except dividends on the Series VI Convertible Preferred Stock, which were paid in U.S. dollars. PLDT s Transfer Agent for its common stock, The Hong Kong and Shanghai Banking Corporation, which also acts as dividend paying agent, converts and remits in U.S. dollars, at the prevailing exchange rate, cash dividends due to all common shareholders residing outside the Philippines. Under the above-mentioned regulations, PLDT has been able to remit the cash dividends due to shareholders residing outside the Philippines. As at December 31, 2009, approximately 86% of PLDT s outstanding shares of common and preferred stock were held by Philippine persons. For certain restrictions on the declaration and payment of dividends by PLDT, see *Note 19 Equity* and *Note 20 Interest-bearing Financial Liabilities* to the accompanying consolidated financial statements in Item 18.

Principal of and interest on PLDT s 11.375% Notes due 2012 and 8.35% Notes due 2017 are payable in U.S. dollars which may be paid through the local banking system either pursuant to the registration of such Notes with the BSP or otherwise pursuant to specific BSP approval of such payment. Such principal and interest may also be paid utilizing PLDT s own dollar resources without necessity of BSP approval. The BSP, with the approval of the President of the Philippines, may, however, restrict the availability of foreign exchange during an exchange crisis, when an exchange crisis is imminent, or in times of national emergency.

Taxation

The following is a description of the material Philippine and United States federal income tax consequences to United States Holders (as defined below) of owning shares of Common Stock and ADSs. It applies to you only if you hold your Common Stock or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including a dealer in securities, a trader in securities that elects to use a mark-to-market method of accounting for securities holdings, a tax-exempt organization, a life insurance company, a person liable for alternative minimum tax, a person that actually or constructively owns 10% or more of PLDT s voting stock, a person that holds Common Stock or ADSs as part of a straddle or a hedging or conversion transaction, or a person whose functional currency is not the U.S. dollar.

This section is based on the United States Internal Revenue Code of 1986, as amended (the U.S. Tax Code), its legislative history, existing and proposed regulations, published rulings and court decisions, and the laws of the Philippines including the Philippine National Internal Revenue Code of 1997 (the Philippine Tax Code) all as currently in effect, as well as on the Convention Between the Philippines and the United States (the Philippines-United States Tax Treaty). These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part on the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed according to its terms.

You are a United States Holder if you are a beneficial owner of Common Stock or ADSs and you are a citizen or resident of the United States, a domestic corporation, an estate whose income is subject to United States federal income tax regardless of its source, or a trust if a United States court can exercise primary supervision over the trust s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

This discussion addresses only United States federal income taxation and Philippine income taxation, estate and donor s taxation, stock transaction taxation and documentary stamp taxes.

Philippine Taxation

Taxes on Exchange of ADSs for Common Stock

Philippine capital gains or stock transaction taxes and documentary stamp taxes may be payable upon the transfer of shares of Common Stock to a holder of ADRs or to a holder of GDRs. See Capital Gains Tax and Stock Transaction Tax and Documentary Stamp Taxes.

Taxation of Dividends

Under the Philippine Tax Code, dividends paid by a Philippine corporation to citizens of the Philippines and resident aliens in the Philippines are subject to a final withholding tax of 10% while those paid to non-resident aliens engaged in trade or business within the Philippines are subject to a final withholding tax of 20%. Dividends paid to non-resident aliens not engaged in trade or business within the Philippines are subject to a final withholding tax of 25%. Dividends paid by a Philippine corporation to other Philippine corporations or to resident non-Philippine corporations are not subject to tax. Dividends paid to non-resident non-Philippine corporations not engaged in a trade or business in the Philippines by Philippine corporations shall be subject to a final withholding tax of 15%, subject to the condition that the country in which the non-resident non-Philippine corporation is domiciled either (i) allows a credit against the tax due from the non-resident non-Philippine corporation taxes deemed to have been paid in the Philippines equivalent to 15% effective January 1, 2009 (which represents the difference between the regular income tax on non-resident non-Philippine corporations of 30% effective January 1, 2009 and the 15% tax on dividends) (this condition is not satisfied in the case of corporations domiciled in the United States if such corporations own less than 10% of the voting stock of PLDT) or (ii) imposes no income taxes on dividends received by such non-resident non-

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Philippine corporations from Philippine corporations (this condition is not satisfied in the case of corporations domiciled in the United States). If neither of the foregoing conditions is met, the dividends paid to the non-resident non-Philippine corporation shall be subject to the regular income tax (in the form of final withholding tax) at the rate of 30% effective January 1, 2009. Under rulings issued by Philippine tax authorities, Hong Kong is viewed as falling within clause (ii) and, thus, companies that are organized in Hong Kong that are not engaged in trade or business in the Philippines may be entitled to the benefit of the 15% rate. Such rulings, however, were based upon the laws of Hong Kong as in effect at the time such rulings were issued, and any subsequent changes in the relevant laws of Hong Kong may affect the validity of such rulings. PLDT reserves the right to change the rate at which it makes payments of withholding tax whenever it deems it appropriate under applicable law.

If the holder of Common Stock is a non-resident foreign partnership, which is treated as a corporation for Philippine tax purposes, dividends on the Common Stock should be subject to a final withholding tax of 30% effective January 1, 2009. Cede & Co., the partnership nominee of Depository Trust Company (DTC), should qualify as a non-resident foreign partnership that would be treated as a corporation for Philippine tax purposes.

In certain circumstances where the holder holds Common Stock, a tax treaty rate may be applicable with respect to the Philippine withholding tax. For instance, holders under such circumstances and as to which the Philippines-United States Tax Treaty would be applicable would be eligible for a treaty rate of 25% (or 20% in certain instances). The 20% treaty rate is generally not applicable in the case of non-resident non-Philippine corporations domiciled in the United States which own less than 10% of the voting stock of PLDT. Holders are required, however, to establish to the Philippine taxing authorities their eligibility for such treaty rate. Philippine tax authorities have prescribed, through an administrative issuance, procedures for availment of tax treaty relief. PLDT intends to pay withholding tax at the reduced treaty rate in respect of shares the registered holder of which is Cede & Co., on the basis that Cede & Co. is a resident of the United States for purposes of the Philippines-United States Tax Treaty. PLDT reserves the right to change the rate at which it makes payments of withholding tax whenever it deems it appropriate under applicable law.

Capital Gains Tax and Stock Transaction Tax

The Philippine Tax Code provides that gain from the sale of shares of stock in a Philippine corporation shall be treated as derived entirely from sources within the Philippines, regardless of where the shares are sold. Subject to applicable tax treaty rates, the rate of tax on such gain, where the share is not disposed of through the PSE, is a final tax (i.e., capital gains tax) of 5% for gains not exceeding Php100,000 and 10% for gains in excess of that amount. The rate is the same for both non-resident individuals and non-resident non-Philippine corporations. While this tax is not collected through withholding, the Philippine Tax Code prohibits a sale or transfer of shares of stock from being recorded in the Stock and Transfer Books of the corporation unless the Philippine Commissioner of Internal Revenue certifies that the tax has been paid or certain other conditions are met.

The sale of shares which are listed in and sold through the PSE are subject to the stock transaction tax imposed at the rate of 1/2 of 1% of the gross selling price. This tax is required to be collected and paid to the government by the selling stockbroker on behalf of his client. Sales of shares other than through a Philippine stock exchange will be subject to Philippine capital gains tax in the manner described above.

Under the Philippines-United States Tax Treaty, gains derived by a United States resident from the sale of shares of stock of a Philippine corporation will not be subject to capital gains tax (i.e., where the share is not disposed of through the PSE), unless the shares are those of a corporation of which over 50% of the assets (in terms of value) consist of real property interests located in the Philippines. PLDT does not believe that it currently is such a corporation.

Documentary Stamp Taxes

The Philippines imposes a documentary stamp tax upon transfers of shares of stock issued by a Philippine corporation at a rate of Php0.75 on each Php200, or fractional part thereof, of the par value of the shares. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred, when the obligation or right arises from Philippine sources or the property is situated in the Philippines. With respect, however, to shares of stock listed and traded in the stock exchange, the Philippine Tax Code, as amended on June 30, 2009 by R.A. 9648, provides that no documentary stamp tax is due on the transfer and disposition of said shares.

Estate and Donor s Taxes

Shares of stock issued by a corporation organized or constituted in accordance with Philippine law are deemed to have a Philippine situs and their transfer by way of succession or donation is subject to Philippine estate and gift taxes. The transfer of shares of stock by a deceased individual to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate is over Php200,000. Individual and corporate shareholders, whether or not citizens or residents of the Philippines, who transfer the Equity Securities by way of gift or donation will be liable for Philippine donor s tax on such transfers at progressive rates ranging from 2% to 15%, if the net gifts made during the calendar year exceed Php100,000. The rate of tax with respect to net gifts made to a stranger, who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity in the collateral line within the fourth degree of relationship of the donor, is a flat rate of 30%. Estate and gift taxes will not be collected in respect of intangible personal property such as the Equity Securities:

- if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or
- if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Shares of stock of a deceased shareholder or shares that have been donated may not be transferred on the books of the corporation without a certificate from the Philippine Commissioner of Internal Revenue that the applicable estate or donor s taxes have been paid. In the case of ADRs, however, there is no corresponding requirement, unless a transfer of the ADRs would also entail a change in the registration of the underlying shares.

United States Federal Taxation

In general, taking into account the earlier assumptions that each obligation of the Deposit Agreement and any related agreement will be performed according to its terms, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADRs. Exchanges of shares of Common Stock for ADRs, and ADRs for shares of Common Stock, generally will not be subject to United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a United States Holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a non-corporate United States Holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that, in the case of Common Stock or ADSs you hold the Common Stock or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. Dividends we pay with respect to the Common Stock or ADSs generally will be qualified dividend income.

You must include any Philippine tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of Common Stock, or the Depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a United States Holder will be the U.S. dollar value of the Philippine peso payments made, determined at the spot Philippine peso/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the Common Stock or ADSs and thereafter as capital gain.

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Subject to certain limitations, the Philippine tax withheld in accordance with the Philippines-United States Tax Treaty and paid over to the Philippines will be creditable or deductible against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate.

Dividends will be income from sources outside the United States. Dividends will, depending on your circumstances, be either passive or general income for purposes of computing the foreign tax credit allowable to you.

Sale or Other Disposition of Equity Securities

Subject to the PFIC rules discussed below, a United States Holder will recognize capital gain or loss upon the sale of Common Stock or ADSs in an amount equal to the difference between such United States Holder s basis in the Common Stock or ADSs and the amount realized upon the sale. Such gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or retirement, the Common Stock or ADSs have been held for more than one year. Capital gain of a non-corporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. Generally, any such gain or loss will be treated as realized income or loss from sources within the United States for foreign tax credit limitation purposes. United States Holders may not be eligible to credit against their United States federal income tax liability amounts paid in respect of the Philippine stock transaction tax. See Philippine Taxation Capital Gains Tax and Stock Transaction Tax.

The U.S. Tax Code does not authorize a comparable credit for foreign gift or donor s taxes such as those imposed by the Philippines. See Philippine Taxation Estate and Donor s Taxes.

Passive Foreign Investment Company Rules

We believe that the Common Stock or ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, unless the Common Stock or ADSs are marketable stock and a United States Holder elects to be taxed annually on a mark-to-market basis with respect to the Common Stock or ADSs, gain realized on the sale or other disposition of your Common Stock or ADSs would in general not be treated as capital gain. Instead, if you are a United States Holder, you would be treated as if you had realized such gain and certain excess distributions ratably over your holding period for the Common Stock or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. In addition, dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are a PFIC either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

Documents on Display

We are subject to the informational requirements of the Exchange Act, and file reports and other information with the Commission, as required by this Act. Reports and other information filed by us with the Commission may be inspected and copied at the Commission s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Commission s Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a website that contains reports, proxy statements and other information regarding registrants that file electronically with the Commission. Copies of these materials may be obtained by mail from the public reference section of the Commission, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. These reports and other information may also be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005, on which the ADSs representing our Common Stock are listed.

Item 11. Quantitative and Qualitative Disclosures About Market Risks

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. Our policies for managing these risks are summarized below. We also monitor the market price risk arising from all financial instruments.

Liquidity Risk

We manage our liquidity profile to be able to finance our operations and capital expenditures, service our maturing debts and meet our other financial obligations. To cover our financing requirements, we use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flows, including our loan maturity profiles, and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These activities may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

Any excess funds are primarily invested in short-dated and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, or ROP, and Philippine banks and corporates, managed funds and other structured products linked to the ROP. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

We have letters of credit amounting to Php1,317 million as at December 31, 2009 and certain financial instruments that are allocated to meet our short-term liquidity needs. These financial instruments are cash and cash equivalents, and short-term investments amounting to Php38,319 million and Php3,824 million, respectively, as at December 31, 2009. Details on our letters of credit and summary of the maturity profile of our financial liabilities as at December 31, 2009 and 2008 based on contractual undiscounted payments is set out in *Note 26 Contractual Obligations and Commercial Commitments* to the accompanying consolidated financial statements in Item 18.

Foreign Currency Exchange Risk

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, most of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars. As such, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase in Philippine peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated capital expenditures and operating expenses as well as our U.S. dollar-linked and U.S. dollar-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. We use forward foreign exchange purchase contracts, currency swap contracts and foreign currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated loans. We also enter into forward foreign exchange sale contracts to manage foreign currency risks associated with our U.S. dollar-linked and U.S. dollar-denominated revenues. In order to manage the hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of foreign currency option contracts, and fixed to floating coupon only swap contracts. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized as cumulative translation adjustments in other comprehensive income until the hedged transaction affects our consolidated income statement or when the hedging instrument expires, or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the year.

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The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at December 31, 2009 and 2008:

	2009		2008	
	U.S. Dollar	**Php**(1)	U.S. Dollar	Php(2)
		(in millions)		
Noncurrent Financial Assets				
Note receivable	**2**	**81**		
Advances and refundable deposits		**7**		
Total noncurrent financial assets	**2**	**88**		
Current Financial Assets				
Cash and cash equivalents	**140**	**6,496**	101	4,794
Short-term investments	**47**	**2,164**	21	986
Trade and other receivables net	**206**	**9,573**	207	9,880
Derivative financial assets		**6**	1	56
Total current financial assets	**393**	**18,239**	330	15,716
Total Financial Assets	**395**	**18,327**	330	15,716
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities net of current portion	**837**	**38,871**	925	44,064
Derivative financial liabilities	**59**	**2,751**	37	1,761
Total noncurrent financial liabilities	**896**	**41,622**	962	45,825
Current Financial Liabilities				
Accounts payable	**155**	**7,180**	143	6,820
Accrued expenses and other current liabilities	**95**	**4,409**	93	4,447
Derivative financial liabilities			2	87
Current portion of interest-bearing financial liabilities	**155**	**7,220**	301	14,331
Total current financial liabilities	**405**	**18,809**	539	25,685
Total Financial Liabilities	**1,301**	**60,431**	1,501	71,510

(1) *The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php46.43 to*

US$1.00, the peso-dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2009.

(2) *The exchange rate used to translate the U.S. dollar amounts into Philippine peso was 47.65 to US$1.00, the peso-dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2008.*

As at May 12, 2010, the peso-dollar exchange rate was Php45.09 to US$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities as at December 31, 2009 would have decreased in peso terms by Php1,214 million.

As at December 31, 2009 and 2008, approximately 46% and 78% of our total consolidated debts (net of consolidated debt discount) was denominated in U.S. dollars, respectively. Consolidated foreign currency-denominated debt decreased to Php45,633 million as at December 31, 2009 from Php57,916 million as at December 31, 2008. PLDT s outstanding long-term principal only currency swap contracts amounted to US$391 million and US$454 million as at December 31, 2009 and 2008, respectively. Consequently, the unhedged portion of our consolidated debt amounts was approximately 28% (or 19%, net of our consolidated U.S. dollar cash balances) and 45% (or 38%, net of our consolidated U.S. dollar cash balances) as at December 31, 2009 and 2008, respectively.

For the years ended December 31, 2009, 2008 and 2007, approximately 34%, 35% and 34%, respectively, of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars. In this respect, the recent depreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar increased our revenues, and consequently, our cash flow from operations in Philippine peso terms.

The Philippine peso had appreciated by 2.56% against the U.S. dollar to Php46.43 to US$1.00 as at December 31, 2009 from Php47.65 to US$1.00 as at December 31, 2008. As at December 31, 2008, the Philippine peso had depreciated by 15.1% from Php41.41 to US$1.00 to Php47.65 to US$1.00 as at December 31, 2007. As a result of our consolidated foreign exchange movements as well as the amount of our consolidated outstanding net foreign currency debts and hedges, we recognized net consolidated foreign exchange gains of Php909 million in 2009, net consolidated foreign exchange losses of Php6,170 million in 2008 and net consolidated foreign exchange gains of Php7,990 million in 2007. See *Note 4 Operating Segment Information* to the accompanying consolidated financial statements in Item 18 for further discussion.

Management conducted a survey among our banks to determine the outlook of the peso-dollar exchange rate until our next reporting date of December 31, 2010. Our outlook is that the peso-dollar exchange rate may weaken/strengthen by approximately 4% as compared to the exchange rate of Php46.43 to US$1.00 as at December 31, 2009. If the peso-dollar exchange rate had weakened/strengthened by approximately 4% as at December 31, 2009, with all other variables held constant, profit after tax for the year would have been approximately Php877 million higher/lower and our consolidated stockholders equity as at year end 2009 would have been approximately Php849 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on translation of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

Interest Rate Risk

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations and short-term borrowings with floating interest rates.

Our policy is to manage interest cost through a mix of fixed and variable rate debts. We evaluate the fixed to floating ratio of our loans in line with movements of relevant interest rates in the financial markets. Based on our assessment, new financing will be priced either on a fixed or floating rate basis. On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our liabilities and not for trading purposes.

The following tables set out the carrying amounts, by maturity, of our financial instruments that are expected to have exposure on interest rate risk as at December 31, 2009 and 2008. Financial instruments that are not subject to interest rate risk were not included in the table.

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As at December 31, 2009

	In U.S. Dollar							Discount/ Debt Issuance Cost	Carrying Value	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	In Php	In Php	In U.S. Dollar	In Php
									(in millions)		
Assets:											
Cash in Bank											
U.S. Dollar	11					11	540		540	11	540
Interest rate	0.0025% to 0.88%										
Philippine Peso	36					36	1,673		1,673	36	1,673
Interest rate	0.625% to 2.90%										
Other Currencies	1					1	31		31	1	31
Interest rate	0.0014 to 2.40%										
Temporary Cash Investments											
U.S. Dollar	384					384	17,870		17,870	384	17,870
Interest rate	0.50% to 1.75%										
Philippine Peso	369					369	17,149		17,149	369	17,149
Interest rate	1.25% to 5.50%										
Short-term Investments											
U.S. Dollar	46					46	2,132		2,132	46	2,132
Interest rate	4.25% to 7.006%										
Philippine Peso	36					36	1,692		1,692	36	1,692
Interest rate	4.40%										

Investment in Debt Securities											
Philippine Peso				10		10	462		462	10	474
Interest rate				6.92%							
	883			**10**		**893**	**41,549**		**41,549**	**893**	**41,561**
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Notes			146		245	391	18,161	285	17,876	449	20,837
Interest rate			11.375%		8.350%						
U.S. Dollar Fixed Loans	14	27	5	285		331	15,397	3,338	12,059	229	10,654
Interest rate	4.515%	3.79% to 4.70%	3.79%	2.25% to 3.79%							
Philippine Peso		63	126	236	305	730	33,858	84	33,774	744	34,535
Interest rate		6.0323% to 8.4346%	5.625% to 8.4346%	6.125% to 9.1038%	6.50% to 9.1038%						
Variable Rate											
U.S. Dollar	41	160	74	60		335	15,543	124	15,419	332	15,419
Interest rate	US$LIBOR + 0.05% to 2.5%	US$LIBOR + 0.42% to 1.85%; swap rate + 2.79%	US$LIBOR + 0.42% to 1.85%; swap rate + 2.79%	US$LIBOR + 0.42% to 1.85%; swap rate + 2.79%							
Philippine Peso		185	81	107		373	17,349	27	17,322	373	17,322
Interest rate		MART 1 + 0.75%; PDST-F + 1.0% to 1.5%; AUB s prime rate	PDST-F + 1.0% to 1.50%; AUB s prime rate	PDST-F + 1.0% to 1.50%							

Short-term Debt											
Notes Payable											
U.S. Dollar	6					6	279		279	6	279
Interest rate	3.25%										
Philippine Peso	43					43	2,000		2,000	43	2,000
Interest rate	PDST-F + 1.5%; 6.0896%										
	104	**435**	**432**	**688**	**550**	**2,209**	**102,587**	**3,858**	**98,729**	**2,176**	**101,046**

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As at December 31, 2008

	In U.S. Dollar							Discount/ Debt Issuance Cost	Carrying Value	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	In Php	In Php	In U.S. Dollar	In Php
									(in millions)		
Assets:											
Cash in Bank											
U.S. Dollar	26					26	1,258		1,258	26	1,258
Interest rate	0.10% to 4.50%										
Philippine Peso	56					56	2,682		2,682	56	2,682
Interest rate	0.25% to 3.50%										
Temporary Cash Investments											
U.S. Dollar	74					74	3,400		3,400	74	3,400
Interest rate											