SEC Number **PW-55**

File Number ____________

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-C

Form Type

Not Applicable

Amendment Designation (if applicable)

December 31, 2009

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

March 2, 2010

Securities & Exchange Commission
SEC Building, EDSA
Mandaluyong City

Attention: Director Justina Callangan
Corporation Finance Department

Gentlemen:

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

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

P	W	-	5	5

S.E.C. Registration No.

P	H	I	L	I	P	P	I	N	E		L	O	N	G		D	I	S	T	A	N	C	E
T	E	L	E	P	H	O	N	E		C	O	M	P	A	N	Y							

(Company's Full Name)

R	A	M	O	N		C	O	J	U	A	N	G	C	O		B	L	D	G	.			
M	A	K	A	T	I		A	V	E	.		M	A	K	A	T	I		C	I	T	Y	

(Business Address: No. Street City/Town/Province)

MS. JUNE CHERYL A. CABAL
Contact Person

816-8534
Company Telephone Number

1	2		3	1

Month Day
Fiscal Year

SEC FORM 17-C
FORM TYPE

0	6	Every 2nd Tuesday

Month Day
Annual Meeting

C	F	D

Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

Total Amount of Borrowings

2,183,134
As of January 31, 2010
Total No. of Stockholders

N/A
Domestic

N/A
Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks: Please use black ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION
CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.1

1. March 2, 2010
Date of Report (Date of earliest event reported)

2. SEC Identification Number PW-55

3. BIR Tax Identification No. 000-488-793

4. PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
Exact name of issuer as specified in its charter

5. PHILIPPINES
Province, country or other jurisdiction of Incorporation

6. ____________ (SEC Use Only)
Industry Classification Code

7. Ramon Cojuangco Building, Makati Avenue, Makati City — 1200
Address of principal office — Postal Code

8. (632) 816-8553
Issuer's telephone number, including area code

9. Not Applicable
Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Securities Regulation Code and Sections 4 and 8 of the Revised Securities Act

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock	186,797,304[1]

(1) Represents the total outstanding common shares (net of 2,682,956 shares).

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PART I –– FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Our consolidated financial statements as at December 31, 2009 (unaudited) and December 31, 2008 (audited) and for the years ended December 31, 2009, 2008 and 2007 and related notes (pages F-1 to F-130) are filed as part of this report on Form 17-C.

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

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

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

The financial information appearing in this report and in the accompanying audited consolidated financial statements is stated in Philippine pesos. All references to "Philippine pesos," "Php" or "pesos" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "yen" 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 Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php46.43 to US$1.00, the volume weighted average exchange rate as at December 31, 2009 quoted through the Philippine Dealing System.

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

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

Financial Highlights and Key Performance Indicators

(in millions, except for earnings per common share, operational data and exchange rates)	December 31, 2009 (Unaudited)	December 31, 2008 (Audited)	Increase (Decrease) Amount	%
Consolidated Statements of Financial Position				
Total assets	Php280,148	Php252,558	Php27,590	11
Property, plant and equipment – net	161,256	160,326	930	1
Cash and cash equivalents and short-term investments	42,143	40,354	1,789	4
Total equity attributable to equity holders of PLDT	98,575	105,531	(6,956)	(7)
Notes payable and long-term debt	98,729	73,911	24,818	34
Net debt(1) to equity ratio	0.57x	0.32x	–	–

	Years Ended December 31, 2009 (Unaudited)	Years Ended December 31, 2008 (Audited)	Increase (Decrease) Amount	%
Consolidated Income Statements				
Revenues	Php147,993	Php145,582	Php2,411	2
Expenses	90,111	85,786	4,325	5
Other expenses	3,043	5,305	(2,262)	(43)
Income before income tax	54,839	54,491	348	1
Net income attributable to equity holders of PLDT	39,781	34,635	5,146	15
Pre-tax income margin	37%	37%	–	–
Net income margin	27%	24%	–	–
Earnings per common share				
Basic	210.38	181.65	28.73	16
Diluted	210.36	181.64	28.72	16
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	74,386	78,302	(3,916)	(5)
Net cash used in investing activities	49,132	17,014	32,118	189
Capital expenditures	*28,069*	*25,203*	*2,866*	*11*
Net cash used in financing activities	20,293	45,464	(25,171)	(55)
Operational Data				
Number of cellular subscribers	41,328,641	35,224,604	6,104,037	17
Number of fixed line subscribers	1,816,541	1,782,356	34,185	2
Number of broadband subscribers	1,614,407	995,916	618,491	62
Fixed Line	*559,664*	*432,583*	*127,081*	*29*
Wireless	*1,054,743*	*563,333*	*491,410*	*87*
Number of employees	29,035	29,904	(869)	(3)
Fixed Line(2)	*7,947*	*7,813*	*134*	*2*
Wireless	*5,507*	*5,602*	*(95)*	*(2)*
Information and Communications Technology	*15,581*	*16,489*	*(908)*	*(6)*

Exchange Rates	**Php per US$**
December 31, 2009	46.43
December 31, 2008	47.65
December 31, 2007	41.41

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

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

Overview

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

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, Pilipino Telephone Corporation, or Piltel, (on August 17, 2009, Smart acquired the cellular business of Piltel) and Connectivity Unlimited Resources Enterprises, or CURE, our cellular service providers; Smart Broadband, Inc., or SBI, Blue Ocean Wireless, or BOW, Airborne Access Corporation, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; Wolfpac Mobile, Inc., or Wolfpac, and Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group, our wireless content operators; Mabuhay Satellite Corporation, or Mabuhay Satellite, and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operators;

- *Fixed Line* — fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. (formerly known as Philcom Corporation) or Philcom, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, and PLDT Global Corporation, or PLDT Global, all of which together account for approximately 4% of our consolidated fixed line subscribers; and

- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT, and BayanTrade, Inc.; knowledge processing solutions provided by SPi Technologies, Inc. and its subsidiaries, or SPi Group; customer interaction solutions provided under the umbrella brand name *ePLDT Ventus*, through ePLDT Ventus, Inc., or Ventus, Parlance Systems, Inc. and Vocativ Systems, Inc.; internet access and online gaming services provided by Infocom Technologies, Inc., or Infocom, Digital Paradise, Inc., netGames, Inc. and Level Up!, Inc., or Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 10 – Investments in Associates and Joint Ventures* of the accompanying unaudited consolidated financial statements.

We registered consolidated revenues of Php147,993 million in 2009, an increase of Php2,411 million, or 2%, as compared with Php145,582 million in 2008, 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 increases in the number of our cellular and broadband subscribers partially offset by decreases in average revenue per subscriber.

Consolidated expenses increased by Php4,325 million, or 5%, to Php90,111 million in 2009 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.

Consolidated other expenses decreased by Php2,262 million, or 43%, to Php3,043 million in 2009 as compared with Php5,305 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 in 2009 to Php46.43 on December 31, 2009 from Php47.65 on December 31, 2008; (ii) an increase in other income of Php404 million primarily due to gain on fair value adjustment of investment properties and 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 Manila Electric Company, or Meralco, from July 14, 2009 (Piltel acquired 20% equity of Meralco) 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 Php3,812 million in 2008 due to the effect of the de-designation of foreign currency swaps and option contracts.

Consolidated net income attributable to equity holders of PLDT increased by Php5,146 million, or 15%, to Php39,781 million in 2009 from Php34,635 million in 2008. The increase was mainly due to the combined effects of the following: (a) decrease in other expenses by Php2,262 million; (b) an increase in consolidated revenues by Php2,411 million; (c) decrease in the consolidated provision for income tax by Php4,449 million due to a reduction in the regular corporate income tax rate from 35% to 30% beginning January 2009 and availment of optional standard deduction, or OSD, in the computation of income tax by our wireless business units; and (d) an increase of Php4,325 million in consolidated expenses. Likewise, our consolidated basic and diluted earnings per common share increased to Php210.38 and Php210.36, respectively, in 2009 from Php181.65 and Php181.64, respectively, in 2008. In 2009, as a result of the share buyback program implemented since 2008, there were 186.8 million PLDT common shares outstanding as compared with 187.5 million PLDT common shares outstanding in 2008.

Results of Operations

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

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Total
			(in millions)		
For the year ended December 31, 2009 (Unaudited)					
Revenues	Php97,524	Php51,373	Php11,549	(Php12,453)	Php147,993
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 (Audited)					
Revenues	95,597	49,686	10,983	(10,684)	145,582
Expenses	47,589	35,733	13,267	(10,803)	85,786
Other expenses	2,640	2,476	1	188	5,305
Income (loss) before income tax	45,368	11,477	(2,285)	(69)	54,491
Net income (loss)	29,333	8,220	(2,186)	(69)	35,298
Net income (loss) attributable to equity holders of PLDT	28,458	8,215	(1,969)	(69)	34,635

Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	Amount	%
					(in millions)				
Revenues	Php1,927	2	Php1,687	3	Php566	5	(Php1,769)	Php2,411	2
Expenses	4,843	10	3,348	9	(1,978)	(15)	(1,888)	4,325	5
Other income (expenses)	3,789	144	(1,694)	68	217	21,700	(50)	2,262	43
Income before income tax	873	2	(3,355)	(29)	2,761	121	69	348	1
Net income (loss)	4,394	15	(2,356)	(29)	2,690	123	69	4,797	14
Net income (loss) attributable to equity holders of PLDT	4,936	17	(2,361)	(29)	2,502	127	69	5,146	15

Wireless

Revenues

Revenues generated from our wireless business amounted to Php97,524 million in 2009, an increase of Php1,927 million, or 2%, from Php95,597 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:

					Increase (Decrease)	
	2009	**%**	**2008**	**%**	**Amount**	**%**
			(in millions)			
Wireless Services:						
Service Revenues:						
Cellular	Php88,410	91	Php87,518	92	Php892	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	2,004	2	(309)	(15)
Total Wireless Revenues	Php97,524	100	Php95,597	100	Php1,927	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 short messaging service, or SMS, on the other hand, decreased due to the increase in the number of multi-SIM holders, 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 in the lower income segment of the Philippine wireless market, average monthly cellular ARPUs for 2009 were lower as compared with 2008. 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.

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	Php88,410	Php87,518	Php892	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.

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. 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.

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 or cellular phone number and enables *Smart Buddy* and *Smart Gold* subscribers to make unlimited calls to any subscriber on the Smart network. Smart subscribers could avail 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.

Buoyed by the widespread acceptance of the service, Smart launched a variant in October 2009, the *Smartalk Plus*, which offers unlimited calling and on-net texting during off-peak hours and 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				
Domestic	Php42,905	Php43,477	(Php572)	(1)
Bucket-Priced	*26,797*	*26,461*	*336*	*1*
Standard	*16,108*	*17,016*	*(908)*	*(5)*
International	1,668	1,808	(140)	(8)
	44,573	45,285	(712)	(2)
Value-added services				
Standard[1]	1,057	1,325	(268)	(20)
Rich Media[2]	998	679	319	47
Pasa Load	413	470	(57)	(12)
	2,468	2,474	(6)	–
Financial services				
Smart Money	27	41	(14)	(34)
Mobile Banking	4	4	–	–
	31	45	(14)	(31)
Total	Php47,072	Php47,804	(Php732)	(2)

(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 aggressive 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. 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.*

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	Php261	Php290	(Php29)	(10)	Php207	Php230	(Php23)	(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. 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	Php272	Php216	Php176	Php144	Php25	Php14	Php1,863	Php1,364
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.

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 December 3, 2009, 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.

On May 24, 2009, Smart introduced *Sandbox*, the latest web platform from Smart which unites social networking, online media content downloading, as well as web services. Browsing on the portal is free of charge but downloading content is charged accordingly. Content is delivered straight to the subscriber's mobile and the cost for any requested music, game and video is automatically charged to the subscriber's prepaid load or added to the monthly service fee for postpaid subscribers.

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 Php309 million, or 15%, to Php1,695 million in 2009 as compared with Php2,004 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 for the years ended December 31, 2009 and 2008 and the percentage of each expense item to the total:

	2009	%	2008	%	Increase (Decrease) Amount	%
			(in millions)			
Wireless Services:						
Depreciation and amortization	Php13,237	25	Php11,975	25	Php1,262	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	Php52,432	100	Php47,589	100	Php4,843	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.

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 unaudited consolidated financial statements.

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.

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 unaudited consolidated financial statements 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	Php1,166	(Php241)	Php1,407	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	Php1,149	(Php2,640)	Php3,789	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 Php1,407 million 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; (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 unaudited consolidated financial statements 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 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 property and equipment 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 Php3,521 million, or 22%, to Php12,514 million in 2009 from Php16,035 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 Php4,394 million, or 15%, from Php29,333 million recorded in 2008 on account of an increase of Php3,789 million in other income – net, a decrease of Php3,521 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.

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:

					Increase (Decrease)	
	2009	**%**	**2008**	**%**	**Amount**	**%**
			(in millions)			
Fixed Line Services:						
Service Revenues:						
Local exchange	Php15,681	31	Php15,923	32	(Php242)	(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	Php51,373	100	Php49,686	100	Php1,687	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 due to an increase in revenues from our data and other network services as a result of higher revenues contributed by our DSL and diginet services, and miscellaneous services, partially offset by the decrease in revenues from our international long distance, local exchange and national long distance services.

Local Exchange Service

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

			Increase (Decrease)	
	2009	**2008**	**Amount**	**%**
Total local exchange service revenues (in millions)	Php15,681	Php15,923	(Php242)	(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.

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.

PLDT offers *PLDT Landline Plus*, a postpaid fixed wireless service where subscribers to the service benefit from a text-capable home phone which can be brought around the area where it was applied for. The monthly service fee is at Php600 with 600 local minutes free and Php1,000 with 1,000 local minutes free for residential and business subscribers, respectively. In March 2008, we introduced the prepaid variant of *PLDT Landline Plus*. As at December 31, 2009, there were a total of 224,165 active *PLDT Landline Plus* subscribers, of which 171,605 and 52,560 were postpaid and prepaid subscribers, respectively, whereas there were a total of 125,621 active *PLDT Landline Plus* subscribers as at December 31, 2008, of which 61,604 and 64,017 were postpaid and prepaid subscribers, respectively.

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:

			Decrease	
	2009	**2008**	**Amount**	**%**
Total international long distance service revenues (in millions)	Php6,255	Php7,063	(Php808)	(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:

			Decrease	
	2009	**2008**	**Amount**	**%**
Total national long distance service revenues (in millions)	Php5,969	Php6,207	(Php238)	(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:

			Increase	
	2009	**2008**	**Amount**	**%**
Data and other network service revenues (in millions)	Php21,567	Php18,607	Php2,960	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* service subscribers. The percentage contribution of this service segment to our fixed line service revenues increased to 42% in 2009 from 38% in 2008.

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

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. DSL subscribers increased by 29% to 559,664 subscribers in 2009 from 432,583 subscribers in 2008.

We also offer *PLDT WeRoam*, a broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies). This service 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. *Shops.Work Unplugged* or SWUP, our VPN service that powers wireless point-of-sale terminals and a growing number of off-site bank ATMs, as well as other retail outlets located in remote areas, also sustained its penetration into the market with the introduction of its offering where one terminal can now accept all types of ATM debit and credit cards. This service is expected to contribute significantly to PLDT data service revenue in the near-term.

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 to use PLDT's extensive international alliances and domestic data offerings – Fibernet, Arcstar, other Global Service Providers such as BT-Infonet, Orange Business and Verizon. ISDN has been increasingly popular with corporate customers, especially the Primary Rate Interface type, I-Gate. International data 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.

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 for the years ended December 31, 2009 and 2008 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2009	**%**	**2008**	**%**	**Amount**	**%**
			(in millions)			
Fixed Line Services:						
Depreciation and amortization	Php11,619	30	Php11,901	33	(Php282)	(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	Php39,081	100	Php35,733	100	Php3,348	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 unaudited consolidated financial statements.

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 to ProtoStar and provision for uncollectible customer receivables. Please see *Note 18 – Prepayments* and *Note 26 – Contractual Obligations and Commercial Commitments* 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:

			Change	
	2009	**2008**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Foreign exchange gains (losses) – net	Php532	(Php4,513)	Php5,045	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)	4,141	(6,321)	(153)
Financing costs – net	(3,796)	(3,903)	107	(3)
Others	970	1,425	(455)	(32)
Total	(Php4,170)	(Php2,476)	(Php1,694)	68

Our fixed line business segment generated other expenses – net of Php4,170 million in 2009, an increase of Php1,694 million, or 68%, as compared with Php2,476 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 relating to the loss on mark-to-market valuation of foreign currency swaps contracts in 2009 as compared with net gains on derivative financial instruments of Php4,141 million in 2008 due to the impact of the de-designation of foreign currency swaps and option contracts in 2008; (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 in December 31, 2009 from Php47.65 in 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 on December 31, 2008 from Php41.41 in 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 Php999 million, or 31%, in 2009 as compared with Php3,257 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 Php2,356 million, or 29%, as compared with Php8,220 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, and other expenses – net by Php1,694 million partially offset by an increase in fixed line service revenues by Php1,874 million and a lower provision for income tax by Php999 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 the steady revenue contribution of our internet and online gaming businesses, partially offset by decreases in the revenue contribution of our customer interaction solutions businesses and knowledge processing solutions.

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

	2009	%	2008	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Knowledge processing solutions	Php5,215	45	Php5,272	48	(Php57)	(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	Php11,549	100	Php10,983	100	Php566	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 online gaming business and steady growth of our internet business. The favorable foreign exchange rate 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.

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 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*™, 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 co-location or rental revenues and server hosting. 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, 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 for the years ended December 31, 2009 and 2008 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2009	**%**	**2008**	**%**	**Amount**	**%**
			(in millions)			
ICT Services:						
Compensation and employee benefits[1]	Php6,418	57	Php6,131	46	Php287	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	Php11,289	100	Php13,267	100	(Php1,978)	(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 unaudited consolidated financial statements 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

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

			Change	
	2009	**2008**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php168	Php17	Php151	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	Php216	(Php1)	Php217	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.

Liquidity and Capital Resources

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

	Years Ended December 31,	
	2009	**2008**
(in millions)	(Unaudited)	(Audited)
Cash Flows		
Net cash provided by operating activities	Php74,386	Php78,302
Net cash used in investing activities	49,132	17,014
Capital expenditures	*28,069*	*25,203*
Net cash used in financing activities	20,293	45,464
Net increase in cash and cash equivalents	4,635	16,237

	December 31,	
	2009	**2008**
(in millions)	(Unaudited)	(Audited)
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php86,066	Php58,899
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 attributable to equity holders of PLDT	98,575	105,531
	Php197,368	Php179,521
Other Selected Financial Data		
Total assets	Php280,148	Php252,558
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 exchangeable note issued by First Pacific Utilities Corporation, or FPUC, to Piltel (including derivative option) of Php2 billion; and (6) share buyback 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 were cash flows from operating activities amounting to Php78,302 million and drawings from PLDT's, Smart's and ePLDT's debt facilities aggregating Php17,912 million. These funds were used principally for dividend payments of Php37,124 million, capital outlays of Php25,203 million, total debt principal payments of Php14,053 million, share buyback of Php5,281 million and interest payments of Php5,167 million.

Operating Activities

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

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. 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.

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 a result of lower prepayments, 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 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 collection on unearned revenues, higher pension contributions made to the beneficial trust fund and lower collection of accounts receivable.

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 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; and (3) increase in capital expenditures by Php2,866 million in 2009; (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 billion issued by FPUC to Piltel as part of the Meralco shares acquisition transaction.

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.

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

In the Annual Stockholders' Meeting of Piltel held on June 30, 2009, its stockholders approved the acquisition by Piltel of 223 million shares in Meralco. On July 14, 2009, Piltel paid Php18.07 billion and exercised the exchange option of the exchangeable note issued by FPUC, completing the acquisition of 223 million shares in Meralco. The market value of the exchangeable note, including the derivative option, was determined to be Php3,286 million as at July 14, 2009, thus the investment in 223 million shares in Meralco was initially recorded at Php21,356 million. The total gain recognized in the exercise of the exchange option amounted to Php1,286 million representing a mark-to-market gains of Php1,170 million and amortization of discount of Php116 million. Please see Other Information and *Note 10 – Investments in Associates and Joint Ventures* of the accompanying unaudited consolidated financial statements for further discussion.

In view of the change in Piltel's business direction, 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 in cash and in full on August 12, 2009. These shares represent approximately 7.19% of the outstanding common stock of Piltel. Smart filed the Tender Offer Report with the Philippine Securities and Exchange Commission, or PSEC, and the Philippine Stock Exchange, or PSE, on June 23, 2009 pursuant to Section 19 of the Securities Regulation Code. 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 interest acquired of Php5,479 million presented under "Equity" in our consolidated statements of financial position. Please see "*Other Information – Sale/Transfer of Piltel's Cellular Mobile Telephone Business/Assets to Smart and Smart's Tender Offer to Piltel's Non-Controlling Interest*", *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests* of the accompanying unaudited consolidated financial statements for further discussion.

In 2009 and 2008, dividends declared by Smart to PLDT 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 will be paid on April 6, 2010, while of the Php24,200 million declared in 2008, Php10,000 million, Php7,200 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, were paid to Smart.

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 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 share buyback 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.

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 in December 31, 2009 from Php47.65 in December 31, 2008. 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.

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 will be 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 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 amount of Php1,000 (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 amount of Php1,000 (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 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 a complete discussion of our long-term debt, see *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt* of the accompanying unaudited consolidated financial statements.

Debt Covenants

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

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

Financing Requirements

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

Consolidated cash dividend payments in 2009 amounted to Php39,286 million as compared with Php37,124 million paid to shareholders in 2008. 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).

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).

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 approximately 2.7 million shares and 2 million shares of PLDT's common stock 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 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. Please see to *Note 8 – Earnings Per Common Share, Note 19 – Equity* and *Note 28 – Financial Assets and Liabilities* of the accompanying unaudited consolidated financial statements for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations as at December 31, 2009 and 2008, see *Note 26 – Contractual Obligations and Commercial Commitments* of the accompanying unaudited consolidated financial statements.

Commercial Commitments

As at December 31, 2009 and 2008, our outstanding consolidated 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.

Quantitative and Qualitative Disclosures about Market Risks

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

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

The following table sets forth the estimated consolidated fair values of our financial assets and liabilities recognized as at December 31, 2009 and September 30, 2009:

	Fair Values	
	December 31, 2009	September 30, 2009
	(Unaudited)	
(in millions)		
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities	Php68	Php68
Unlisted equity securities	66	65
Investments in debt securities	474	469
Advances and refundable deposits – net of current portion	732	757
Total noncurrent financial assets	1,340	1,359
Current Financial Assets		
Cash and cash equivalents	38,319	26,937
Short-term investments	3,824	1,586
Trade and other receivables - net	14,729	22,953
Derivative financial assets	6	9
Current portion of advances and refundable deposits	7	2
Total current financial assets	56,885	51,487
Total Financial Assets	**Php58,225**	**Php52,846**
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php88,395	Php82,400
Derivative financial liabilities	2,751	2,615
Customers' deposits	1,375	1,531
Deferred credits and other noncurrent liabilities	11,629	8,749
Total noncurrent financial liabilities	104,150	95,295
Current Financial Liabilities		
Accounts payable	17,698	18,336
Accrued expenses and other current liabilities	28,687	23,852
Derivative financial liabilities	–	1
Interest-bearing financial liabilities	12,714	13,476
Dividends payable	1,749	1,762
Total current financial liabilities	60,848	57,427
Total Financial Liabilities	**Php164,998**	**Php152,722**

The following table sets forth the amount of consolidated gains (losses) recognized for the financial assets and liabilities for the year ended December 31, 2009 and for the nine months ended September 30, 2009:

	December 31, 2009	September 30, 2009
	(Unaudited)	
(in millions)		
Profit and Loss		
Interest income	Php1,539	Php1,291
Losses on derivative financial instruments – net	(1,006)	(534)
Accretion on financial liabilities – net	(1,062)	(778)
Interest on loans and other related items	(6,008)	(4,393)
Other Comprehensive Income		
Net gains available-for-sale financial assets	3	1
	(Php6,534)	(Php4,413)

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 impact on our operations.

PART II – OTHER INFORMATION

Piltel's Acquisition of Shares in Meralco

On March 12, 2009, First Philippine Holdings Corporation, or 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. As part of the transaction, Piltel and FPUC also entered into an exchangeable note agreement pursuant to which Piltel purchased an exchangeable note dated April 20, 2009, issued by FPUC, with a face value of Php2 billion, exchangeable at Piltel's option into approximately 22.2 million shares of common stock of Meralco, which form part of the 223 million shares or approximately 20% of Meralco's voting common shares to be acquired by Piltel in this transaction. The exchange option was exercisable simultaneously with the acquisition of such shares by Piltel.

In the Annual Stockholders' Meeting held on June 30, 2009, Piltel's stockholders approved the acquisition by Piltel of 223 million shares in Meralco. On July 14, 2009, Piltel paid Php18.07 billion for approximately 200.8 million shares and exercised the exchange option for the approximately 22.2 million shares, which were the subject of the exchangeable note issued by FPUC, to complete the acquisition of the 223 million shares in Meralco. The carrying value of the exchangeable note, including the derivative option, was determined to be at Php3,286 million as at July 14, 2009, thus the investment in 223 million shares in Meralco was initially recorded at Php21,356 million. The total gain recognized from the exchangeable note amounted to Php1,286 million 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. The acquisition of the shares was implemented through a special block sale/cross sale executed at the PSE. Please see *Note 10 – Investments in Associates and Joint Ventures* of the accompanying unaudited consolidated financial statements for further discussion.

Meralco is the largest distributor of electricity in the Philippines with a service area spanning 9,337 square kilometers, where approximately a quarter of the total Philippine population resides. It has a customer base of about 4.7 million, comprising commercial, industrial, and residential customers. In addition to electrical distribution, Meralco undertakes several related businesses, including e-Meralco Ventures, Inc., which operates a fiber optic network of over 1,000 kilometers and provides leased line connections, metro ethernet connections and disaster recovery transport services.

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

Transfer of Piltel's Equity Interest in Meralco

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

Investment in Rightlight

Upon the approval of the PSEC of Rightlight's increase in authorized capital stock, Rightlight will have an authorized capital stock of 5 billion shares divided into 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 Rightlight are non-voting, redeemable by Rightlight and have no pre-emptive rights to any share or convertible debt securities or warrants issued by Rightlight. 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) no violation of dividend restrictions imposed by Rightlight's bank creditors.

MPIC presently beneficially owns 25,000 common shares of Rightlight, with a total par value of Php25,000.

Each of Piltel and MPIC has agreed to subscribe to 1,156,500,000 common shares of Rightlight, for a subscription price of Php20 per share or a total of Php23.13 billion out of the proposed increase in authorized capital stock of Rightlight. Piltel and MPIC have also agreed that their resulting equity after such subscription will be 50% each of the outstanding common shares of Rightlight.

MPIC has also agreed to subscribe to 801,044,415 shares of Rightlight's preferred stock for a subscription price of Php10 per share or a total of Php8.01 billion.

The completion of the subscription of MPIC to 1,156,500,000 common shares and 801,044,415 preferred shares of Rightlight is subject to: (a) MPIC Board of Directors' approval, which was obtained on March 1, 2010; (b) the approval of the shareholders of First Pacific, which is expected to be obtained on March 30, 2010; and (c) full payment of the subscription price, which is expected to be made on March 30, 2010.

The completion of the subscription of Piltel to 1,156,500,000 common shares of Rightlight is subject to: (a) Piltel Board of Directors' approval, which was obtained on March 1, 2010; (b) the approval of the shareholders of Piltel, which is expected to be obtained on May 7, 2010; (c) the approval of the shareholders of First Pacific, which is expected to be obtained on March 30, 2010; and (d) full payment of the subscription price, which is expected to be made in May 2010 immediately after the Piltel shareholders' approval.

The foregoing subscriptions will be offset against the amounts receivable from Rightlight arising from the transaction described in the following section. In addition, MPIC will settle its remaining balance in cash.

Transfer of Meralco Shares to Rightlight

Rightlight has agreed to purchase 154,200,000 and 163,602,961 Meralco shares (“Transferred Shares”) from Piltel and MPIC, respectively, for a consideration of Php150 per share or a total of Php23.13 billion for the Piltel Meralco shares and Php24.54 billion for the MPIC Meralco shares.

The completion of the sale of the MPIC Meralco shares to Rightlight is subject to: (a) MPIC 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) approval of the shareholders of First Pacific, which is expected to be obtained on March 30, 2010; and (d) release of the pledge over the MPIC Meralco shares which is expected to be obtained by March 30, 2010.

The completion of the sale of the Piltel Meralco shares to Rightlight is subject to: (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 Piltel, which is expected to be obtained on May 7, 2010; and (d) the approval of the shareholders of First Pacific, which is expected to be obtained on March 30, 2010.

The transfer of legal title to the Meralco shares will be effected through a special block sale in the PSE after the release of the existing pledge over the shares being transferred by MPIC, for the MPIC Meralco shares, and after the approval of the transaction by Piltel’s shareholders, for the Piltel Meralco shares.

Subject to rights over certain property dividends that may be declared or payable in respect of the 317,802,961 Transferred Shares, which will be assigned to First Pacific Holdings Corporation, or FPHC, if the Call Option (as discussed below), is exercised, the rights, title and interest that will be transferred to Rightlight by MPIC and Piltel in respect of the foregoing 317,802,961 Transferred Shares shall include: (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 hereafter 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 Rightlight transfer to Rightlight its remaining 68,800,000 Meralco common shares.

Call Option

Under the OA, MPIC has assigned its right to acquire the call option (the “Call Option”) over 74,700,000 shares of Meralco common shares currently held by FPHC (the “Option Shares”), to Rightlight. As a result of this assignment, Rightlight and FPHC have executed an Option Agreement dated March 1, 2010 pursuant to which FPHC granted the Call Option over the Option Shares to Rightlight.

The Call Option is exercisable at the option of Rightlight during the period from March 15, 2010 to May 15, 2010. The exercise price for the Option Shares shall be Php300 per Option Share or an aggregate exercise price of Php22.41 billion.

Subject to rights over certain property dividends that may be declared or payable in respect of the 74,700,000 shares of Meralco common stock, which will be retained by FPHC if the Call Option is exercised, the rights, title and interest that will be transferred to Rightlight by FPHC in respect of the Option Shares if Rightlight exercises the Call Option shall include: (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 317,802,961 Transferred Shares and the remaining 68,800,000 Meralco common shares held by Piltel, FPHC will have the benefit of being assigned certain property dividends that may be declared on such shares subject to Rightlight exercising the Call Option.

With respect to the 74,700,000 common shares of Meralco that may be acquired by Rightlight in the event that the Call Option is exercised, FPHC will have the benefit of retaining certain property dividends that may be declared on such shares.

For Rightlight, the estimated value attributable to FPHC's potential property dividend retention is approximately Php2.94 per Meralco share. For MPIC and Piltel, the estimated value attributable to FPHC's potential property dividend assignment is approximately Php2.94 per Meralco share.

Governance Arrangements

Rightlight, 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 Rightlight equity structure will result to a jointly-controlled entity.

Sale/Transfer of Piltel's Cellular Mobile Telephone Business/Assets to Smart and Smart's Tender Offer to Piltel's Non-controlling Interest

On June 30, 2009, Piltel's stockholders approved the sale/transfer of Piltel's cellular mobile telephone business/assets to Smart through a series of transactions, which include: (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 Php73 per subscriber, which is equivalent to the average subscriber acquisition cost in 2008 of Smart for its *Smart Buddy* subscribers; and (c) the sale of Piltel's GSM fixed assets to Smart at net book value. As a result, the cellular mobile telephone business will therefore be consolidated under Smart in order to maximize revenue streams and eliminate any lingering regulatory issues relating to the traffic between Piltel and Smart. The transfer was completed on August 17, 2009. The NTC approved the request for the sale and transfer of Piltel's subscribers to Smart submitted on July 8, 2009. The foregoing transactions between Smart and Piltel are eliminated in our consolidated financial statements.

In view of the change in Piltel's business direction, 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 in cash and in full on August 12, 2009. These shares represent approximately 7.19% of the outstanding common stock of Piltel. Smart filed the Tender Offer Report with the PSEC and the PSE on June 23, 2009 pursuant to Section 19 of the Securities Regulation Code. 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 interest acquired of Php5,479 million presented as part of capital in excess of par value account. Please see *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests* of the accompanying unaudited consolidated financial statements for further discussion.

Transfer of Piltel's CMTS CPCN to SBI

On August 1, 2009, Piltel and SBI entered into an agreement whereby Piltel agreed to transfer and assign to SBI its CMTS CPCN and all its rights, interests and obligations. Piltel and SBI filed a joint petition with the NTC for the approval of the transfer. On January 8, 2010, the NTC released an order, approving the joint petition filed by Piltel and SBI for authority to sell, transfer and convey the certificate of public convenience and necessity to establish, construct, operate and maintain a nationwide CMTS and its complementary coastal and public calling offices of Piltel to SBI.

Piltel's Share Buyback Program

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 tender offer of Smart due to various constraints. As with the previous buyback programs, this will be done directly from the open market through the trading facilities of the PSE and will continue until the number of shares earmarked for the program has been fully repurchased, or until such time as Piltel's Board of Directors determine otherwise. Under this program, Piltel has already purchased 2.8 million shares at a cost of Php23 million as at December 31, 2009. Please see *Note 2 – Summary of Significant Accounting Policies* of the accompanying unaudited consolidated financial statements for further discussion.

Smart's Acquisition of shares in PDSI

Smart acquired 84 million shares, 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 value-added services such as server co-location and data center services. The acquisition was completed on two dates: (1) the First Closing which took place on May 14, 2009, involved the acquisition of 34 million shares representing 40% interest for a consideration of Php632 million; and (2) the Second Closing which took place on October 2, 2009, involved the acquisition of 50 million shares representing 60% interest for a consideration of Php937 million. Please see *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business*

Combinations and Acquisition of Non-Controlling Interests to the accompanying unaudited consolidated financial statements for further discussion.

Smart's Acquisition of Chikka

In December 18, 2009, Smart acquired 120 thousand common shares, representing 100% of the outstanding share capital of Chikka 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 closing date of December 18, 2009 and the balance of US$1.4 million, or Php65 million, shall be settled on a date mutually acceptable to both parties. Smart and Chikka will agree on a mutually acceptable schedule for post-closing date, which shall be on a date in which all post-closing deliverables are ready to be delivered by Chikka to Smart. Chikka was incorporated in the British Virgin Islands on April 5, 2000 to engage in the business of providing 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. Please see related discussion on *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests* to the accompanying unaudited consolidated financial statements for further details.

Additional Investment of Smart in BOW

In July 2009, Smart, through its subsidiary SmartConnect Holdings, Inc., or SCH, agreed to invest an additional US$6 million in BOW contemporaneously with certain other shareholders of BOW. The purpose of the additional shareholders' investment is to accelerate the introduction of FleetBroadband and next generation maritime communication services. On July 14, 2009, BOW announced that it has successfully completed full FleetBroadband testing and the service is now fully operational and commercially available to existing and potential BOW customers. BOW has established itself as a provider of GSM services to the merchant maritime sector and has demonstrated growth in its field since it was founded two years ago. With the FleetBroadband service, BOW ensures connectivity at sea with a full range of value-added services such as texting, e-mailing and internet access. Please see *Note 2 – Summary of Significant Accounting Policies, Note 10 – Investments in Associates and Joint Ventures* and *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests* of the accompanying unaudited consolidated financial statements for further discussion.

Additional ePLDT's Investment in BayanTrade, Inc., or BayanTrade

On January 20, 2009 and April 15, 2009, ePLDT acquired additional equity interest of 34.31% and 48.39%, respectively, in BayanTrade for cash consideration of Php28 million and Php39 million, respectively, thereby increasing its ownership interest to 93.5% as at April 15, 2009. Please see *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests* of the accompanying unaudited consolidated financial statements for further discussion.

BayanTrade was incorporated initially as an e-procurement joint venture established with six of the Philippines' leading conglomerates. It is now the leading authorized software reseller in the Philippines of a Global ERP software.

SPi's Acquisition of Laguna Medical Systems, Inc., or Laguna Medical

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 an aggregate price of US$6.6 million, or Php313 million. Simultaneous to the acquisition of 80% interest, SPi signed a mandatory Put-Call Agreement with Laguna Medical LLC, a Delaware Corporation and Parent Company of Laguna Medical, for the right to call the remaining 20% of the outstanding common stock of Laguna Medical. Please see *Note 2 – Summary of Significant Accounting Policies*, *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests*, *Note 21 – Deferred Credits and Other Noncurrent Liabilities* and *Note 23 – Accrued Expenses and Other Current Liabilities* of the accompanying unaudited consolidated financial statements for further discussion.

Laguna Medical has more than 50 regionally-based consultants assisting more than 200 hospitals. It aims to achieve coding and billing compliance, to optimize entitled reimbursements for patient services and to help healthcare providers to manage and defend Recovery Audit Contractor audits.

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 application for merger has been filed with the SEC in February 2010 and is subject to all necessary regulatory approvals.

Satellite Wholesale Lease and Purchase Agreement, or SWLPA, and Operations Management Agreement, or OMA, between Mabuhay Satellite and Asia Broadcast Satellite Holdings, Ltd.

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 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 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 has deemed to have occurred effective December 31, 2009. First Closing means the date when the assignment of customer contracts to ABS becomes effective and the approval or confirmation of SWLPA by stockholders of Mabuhay Satellite representing at least two-thirds of its outstanding capital stock has been 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 Completes Multi-Billion Nationwide Digital Fiber Optic Network Expansion

On February 25, 2010, PLDT has 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 Terabit 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 not only to protect its existing businesses but also to drive new businesses nationwide. To date, PLDT already completed majority of the inland portion and expect 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.

Recent NTC Memorandum Circulars

Memorandum Circular No. 03-07-2009, dated July 3, 2009, extended the validity of prepaid loads depending on the value of the load. Prepaid loads with higher values shall have longer validity periods – the shortest validity period is three (3) days while the maximum period is 120 days.

Memorandum Circular No. 05-07-2009, dated July 23, 2009, prescribes six seconds per pulse as the maximum unit of billing for cellular mobile telephone service, or CMTS, voice. Operators will be allowed to charge a higher rate for the first two pulses (or 12 seconds) in order to recover set-up costs. Subscribers, however, may still opt to be billed on a per minute basis or to subscribe to unlimited service offerings. The Memorandum Circular required all CMTS providers to submit their respective proposed rates within 30 days from effectivity of the circular and to make the necessary adjustments to their billing systems within 120 days from effectivity, in order to effect the change in pulsing thereafter. On September 8, 2009, Smart filed with NTC an application for authority to adopt a revised schedule of rates for CMTS and deferment of the implementation of the adjusted rates until December 2009.

On December 5, 2009, NTC granted Smart the provisional authority to charge the new rates for the CMTS service and also directed Smart to implement the per pulse billing scheme the following day. On December 6, 2009, in compliance with the NTC directive, Smart adjusted its billing system to conform to the six seconds per pulse scheme with the use of a prefix. On December 9, 2009, NTC issued a show-cause order and a cease and desist order in connection with Smart's compliance with the Memorandum Circular No. 05-07-2009. On December 22, 2009, Smart filed a petition for temporary restraining order and asked the Court of Appeals to annul, reverse and set aside the NTC orders dated December 5, 2009 and December 9, 2009 in relation to the implementation of the six seconds per pulse billing scheme. On February 18, 2010, the Court of Appeals issued a temporary restraining order in relation to the NTC orders to implement the per pulse billing scheme.

Related Party Transactions

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

ANNEX – AGING OF ACCOUNTS RECEIVABLE

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

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(In Millions)		
Corporate subscribers	Php9,106	Php1,866	Php762	Php496	Php5,982
Retail subscribers	8,026	2,510	1,227	304	3,985
Foreign administrations	4,353	1,341	1,380	646	986
Domestic carriers	1,267	205	285	292	485
Dealers, agents and others	3,927	3,185	348	34	360
Total	Php26,679	Php9,107	Php4,002	Php1,772	Php11,798
Less: Allowance for doubtful accounts ..	11,950				
Total Receivables - net	**Php14,729**				

SIGNATURES

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

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: ______________________
NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title: ______________________
ANABELLE LIM-CHUA
Senior Vice President and Treasurer
(Principal Financial Officer)

Signature and Title: ______________________
JUNE CHERYL A. CABAL
First Vice President and Controller
(Principal Accounting Officer)

Date: March 2, 2010