SEC Number **PW-55**
File Number ____________

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

September 30, 2007

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

November 6, 2007

Securities & Exchange Commission
Money Market Operations Department
SEC Building, EDSA
Mandaluyong City

Attention: Director Justina Callangan
Corporations Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith five (5) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited financial statements of the Company for the nine (9) months ended September 30, 2007.

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.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

RAMON COJUANGCO BLDG. MAKATI AVE. MAKATI CITY

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

ATTY. MA. LOURDES C. RAUSA-CHAN	816-8405
Contact Person	Company Telephone Number

1 2	3 1	SEC FORM 17-Q	0 6	Every 2nd Tuesday
Month	Day	FORM TYPE	Month	Day
Fiscal Year			Annual Meeting	

C F D	N/A
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

2,186,117 As of September 30, 2007	N/A	N/A
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2007

2. SEC Identification Number PW-55 3. BIR Tax Identification No. 000-488-793

4. Philippine Long Distance Telephone Company
   Exact name of registrant as specified in its charter

5. Republic of the Philippines
   Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: ☐ (SEC Use Only)

7. Ramon Cojuangco Building, Makati Avenue, Makati City — 0721
   Address of registrant's principal office — Postal Code

8. (632) 816-8556
   Registrant's telephone number, including area code

9. Not Applicable
   Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Capital Stock, Php5 par value	188,708,152 shares as of September 30, 2007

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

    Yes [X] No [ ]

12. Check whether the registrant

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

    Yes [X] No [ ]

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

    Yes [X] No [ ]

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PART I –– FINANCIAL INFORMATION

Item 1. Financial Statements

Our financial statements as at September 30, 2007 (unaudited) and December 31, 2006 (audited) and for the nine months ended September 30, 2007 and 2006 (unaudited) and related notes (pages F-1 to F-95) are filed as part of this report on Form 17-Q.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and the related notes. Our unaudited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with Philippine Financial Reporting Standards, which differ in certain significant respects from generally accepted accounting principles in the United States.

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "pesos," "Philippine pesos" or "Php" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "¥" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php44.974 to US$1.00, the volume weighted average exchange rate at September 30, 2007 quoted through the Philippine Dealing System.

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

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

Financial Highlights and Key Performance Indicators

(in millions, except for operational data, exchange rates and earnings per common share)	September 30, 2007 (Unaudited)	December 31, 2006 (Audited)	Decrease Amount	Decrease %
Consolidated Balance Sheets				
Total assets	Php227,971	Php241,892	(Php13,921)	(6)
Property, plant and equipment – net	159,288	164,190	(4,902)	(3)
Cash and cash equivalents and short-term investments	19,993	25,197	(5,204)	(21)
Total equity	103,692	104,523	(831)	(1)
Notes payable and long-term debt	64,725	80,154	(15,429)	(19)
Net debt(1) to equity ratio	0.43x	0.53x	–	–

	Nine Months Ended September 30, 2007	2006	Increase (Decrease) Amount	%
		(Unaudited)		
Consolidated Statements of Income				
Revenues and other income	Php103,468	Php95,400	Php8,068	8
Expenses	63,488	65,902	(2,414)	(4)
Income before income tax	39,980	29,498	10,482	36
Net income	26,952	26,367	585	2
Net income attributable to equity holders of PLDT	26,506	25,744	762	3
Net income margin	26%	27%	–	–
Earnings per common share – basic	138.71	138.71	–	–
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	55,499	56,146	(647)	(1)
Net cash used in investing activities	19,557	25,261	(5,704)	(23)
Capital expenditures	*14,529*	*16,872*	*(2,343)*	*(14)*
Net cash used in financing activities	43,980	41,763	2,217	5
Operational Data				
Number of cellular subscribers	28,260,095	22,929,431	5,330,664	23
Number of fixed line subscribers	1,751,468	1,747,357	4,111	–
Number of broadband subscribers	501,250	219,601	281,649	128
Fixed Line	*229,534*	*118,679*	110,*855*	93
Wireless	*271,716*	*100,922*	*170,794*	169
Number of employees	26,135	26,610	(475)	(2)
Fixed Line	*8,057*	*9,110*	*(1,053)*	*(12)*
Wireless	*5,345*	*5,328*	17	–
Information and Communications Technology	*12,733*	*12,172*	561	*5*

Exchange Rates	Php per US$
September 30, 2007	Php44.974
December 31, 2006	49.045
September 30, 2006	50.249
December 31, 2005	53.062

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

Overview

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

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Pilipino Telephone Corporation, or Piltel, our cellular service providers; Smart Broadband, Inc., or Smart Broadband, our wireless broadband provider; Wolfpac Mobile, Inc., or Wolfpac, our wireless content operator; Mabuhay Satellite Corporation, or Mabuhay Satellite, ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, and Telesat, Inc., or Telesat, our satellite and very small aperture terminal, or VSAT, operators;

- *Fixed Line* — fixed line telecommunications services are primarily provided through PLDT. We also provide fixed line services through PLDT's subsidiaries PLDT Clark Telecom, Inc., Subic Telecommunications Company, Inc., PLDT-Maratel, Inc., Piltel, PLDT Global Corporation, or PLDT Global, Smart-NTT Multimedia, Inc. and Bonifacio Communications Corporation, which together account for approximately 3% 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 PLDT's subsidiary ePLDT, Inc., or ePLDT; business process outsourcing, or BPO, provided by SPi Technologies, Inc. and its subsidiaries, or SPi Group (consolidated on July 11, 2006); call center services provided under the umbrella brand name *ePLDT Ventus*, include ePLDT Ventus, Inc., or Ventus, Parlance Systems, Inc., or Parlance, and Vocativ Systems, Inc., or Vocativ; internet access and online gaming services provided by ePLDT's subsidiaries, Infocom Technologies, Inc., or Infocom, Digital Paradise, Inc., or Digital Paradise, Digital Paradise Thailand, Ltd., or Digital Paradise Thailand, netGames, Inc., or netGames, Airborne Access Corporation, or Airborne Access and Level Up!, Inc., or Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 9 – Investments in Associates* to the accompanying unaudited consolidated financial statements.

We registered total revenues and other income of Php103,468 million in the first nine months of 2007, an increase of Php8,068 million, or 8%, as compared to Php95,400 million in the same period in 2006 primarily due to an increase in our service revenues by Php8,467 million largely from our wireless business.

Expenses decreased by Php2,414 million, or 4%, to Php63,488 million in the first nine months of 2007 from Php65,902 million in the same period in 2006, largely resulting from decreases in depreciation and amortization, and financing costs partly offset by higher compensation and benefits, professional and other contracted services, and taxes and licenses.

Net income attributable to equity holders of PLDT increased by Php762 million, or 3%, to Php26,506 million in the first nine months of 2007 from Php25,744 million in the same period in 2006. However, despite the increase in our net income in 2007, our basic earnings per common share in the first nine months of 2007 and 2006 resulted in the same amount of Php138.71 due to the corresponding increase in the weighted average number of common shares outstanding from 183.1 million in the first nine months of 2006 to 188.6 million in the same period in 2007.

Results of Operations

The table below shows the contribution by each of our business segments to our revenues and other income, expenses and net income for the nine months ended September 30, 2007 and 2006. Most of our revenues are derived from our operations within the Philippines.

	Wireless		Fixed Line		ICT		Inter-segment Transactions	Total	
(in millions)									
For the nine months ended September 30, 2007 (Unaudited)									
Revenues and other income	Php66,407		Php36,242		Php7,643		(Php6,824)	Php103,468	
Service	64,059		35,664		7,416		(6,669)	100,470	
Non-service	1,630		119		200		(89)	1,860	
Other income	718		459		27		(66)	1,138	
Expenses	32,339		30,264		7,709		(6,824)	63,488	
Income (loss) before income tax	34,068		5,978		(66)		–	39,980	
Net income for the period	22,947		3,998		7		–	26,952	
Net income attributable to equity holders of PLDT	22,465		3,995		46		–	26,506	
For the nine months ended September 30, 2006 (Unaudited)									
Revenues and other income	60,488		36,629		4,146		(5,863)	95,400	
Service	58,016		35,901		3,788		(5,702)	92,003	
Non-service	1,842		71		339		(92)	2,160	
Equity share in net income of associates	–		–		1		–	1	
Other income	630		657		18		(69)	1,236	
Expenses	31,655		35,982		4,128		(5,863)	65,902	
Income before income tax	28,833		647		18		–	29,498	
Net income for the period	25,757		587		23		–	26,367	
Net income attributable to equity holders of PLDT	25,098		586		60		–	25,744	
Increase (Decrease)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**Amount**	**%**
Revenues and other income	Php5,919	10	(Php387)	(1)	Php3,497	84	(Php961)	Php8,068	8
Service	6,043	10	(237)	(1)	3,628	96	(967)	8,467	9
Non-service	(212)	(12)	48	68	(139)	(41)	3	(300)	(14)
Equity share in net income of associates	–	–	–	–	(1)	(100)	–	(1)	(100)
Other income	88	14	(198)	(30)	9	50	3	(98)	(8)
Expenses	684	2	(5,718)	(16)	3,581	87	(961)	(2,414)	(4)
Income before income tax	5,235	18	5,331	824	(84)	(467)	–	10,482	36
Net income for the period	(2,810)	(11)	3,411	581	(16)	(70)	–	585	2
Net income attributable to equity holders of PLDT	(2,633)	(10)	3,409	582	(14)	(23)	–	762	3

Wireless

Revenues and Other Income

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

The following table summarizes our service and non-service revenues and other income from our wireless business for the nine months ended September 30, 2007 and 2006 by service segment:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
(in millions)			(Unaudited)			
Wireless services:						
Service Revenues						
Cellular	Php61,121	92	Php56,086	93	Php5,035	9
Wireless broadband, satellite, VSAT and others	2,938	5	1,930	3	1,008	52
	64,059	97	58,016	96	6,043	10
Non-service Revenues						
Sale of cellular handsets and SIM-packs	1,630	2	1,842	3	(212)	(12)
Other Income	718	1	630	1	88	14
Total Wireless Revenues and Other Income	Php66,407	100	Php60,488	100	Php5,919	10

Service Revenues

Our wireless service revenues increased by Php6,043 million, or 10%, to Php64,059 million in the first nine months of 2007 as compared with Php58,016 million in the same period in 2006, mainly as a result of the growth in the cellular and wireless broadband subscriber base, an increase in inbound international traffic and inbound roaming revenues, partially offset by an increase in interconnection costs and the unfavorable effect of the appreciation of the Philippine peso on dollar-linked revenues. As a percentage of our total wireless revenues and other income, service revenues contributed 97% in the first nine months of 2007 as compared to 96% in the same period in 2006.

Cellular Service

Our cellular service revenues consist of:

- revenues derived from actual usage of the network by prepaid subscribers and any unused peso value of expired prepaid cards or electronic air time loads, net of content costs and discounts given to dealers;
- monthly service fees from postpaid subscribers, including: (1) charges for calls in excess of allocated free local calls; (2) toll charges for national and international long distance calls; (3) charges for text messages of our service customers in excess of allotted free text messages; and (4) charges for value-added services, net of related content provider costs;
- revenues generated from incoming calls and messages to our subscribers, net of interconnection expenses; fees from reciprocal traffic from international correspondents; and revenues from inbound international roaming calls for the service; and
- other charges, including those for reconnection and migration.

Our cellular service revenues in the first nine months of 2007 amounted to Php61,121 million, an increase of Php5,035 million, or 9%, from Php56,086 million in the same period in 2006. Cellular service revenues accounted for 95% of our wireless service revenues in the first nine months of 2007 as compared to 97% in the same period in 2006.

Smart markets nationwide cellular communications services under the brand names *Smart Buddy*, *Smart Gold*, *addict mobile*, and *Smart Infinity*. *Smart Buddy* is a prepaid service while *Smart*

Gold, Smart Infinity and *addict mobile* are postpaid services, which are all provided through Smart's digital network. Piltel markets its cellular prepaid service under the brand name *Talk 'N Text* which is provided through Smart's network.

Since 2006, Smart has focused on segmenting its market by offering sector-specific, value-driven packages such as *All Text*, a new variety of top-up service providing a fixed number of messages with prescribed validity periods. Offerings include *All Text 10 Bonus*, with a suggested retail price of Php12, which includes 10 messages to all networks plus five bonus on-network messages with a one-day validity period and, effective March 24, 2007, *All Text Plus*, which offers 90 on-network messages plus 10 messages to all networks for Php20, with one day validity period. *All Text Plus* is in effect until January 26, 2008. *All Text* also has a voice counterpart in *All Talk Call*, a call package which allows three calls of up to three minutes each for local on-network calls for Php20, valid for one day. Other voice offerings include: (a) the *Flat Rate Plus Call*, which allows a subscriber to make: (1) an on-network call of up to three minutes for Php10 or extend the call to five minutes for Php15; or (2) an off-network call of up to two minutes for Php10 or extend the call up to three minutes for Php15, effective March 29, 2007; and (b) *Tipid Talk*, a call package which allows a subscriber to make four calls of up to 30 seconds each for local on-network calls, valid for one day for Php10 and another variant allowing four calls of up to 15 seconds each for local on-network calls, valid for one day for Php5.50. *All Text 10 Bonus*, *All Talk Call*, *Tipid Talk* and *Flat Rate Plus Call* are now permanent offerings. Smart also continues to offer *Smart 258*, a registration-based service which offers unlimited on-network text messaging in load denominations of Php15, Php30 and Php60 with corresponding expiration periods of 1, 2 and 4 days, respectively.

On January 18, 2007, Smart introduced *LAHATxt*, a top-up service for Smart prepaid subscribers which offers a bundle of text messages available to all networks. *LAHATxt 35* provides for 100 text messages to all networks for Php35 with a one day validity period. Likewise, *Talk 'N Text* subscribers have *LAHATxt 20* which allows a subscriber to make 50 text messages to all networks for Php20, also valid for one day. A variant of the *All Text* promotion, *Gaantxt Plus* is specifically targeted at *Talk 'N Text* subscribers. For a load of Php10, the promotion gives 40 *Talk 'N Text* to *Talk 'N Text* messages plus five messages to all networks valid for one day. The *Gaantxt Plus* promotion is valid until February 1, 2008.

In May 2007, Smart introduced the *Ask-for-Load* service which offers a maximum of three Php5 air time load requests per day to all Smart and *Talk 'N Text* subscribers.

On October 3, 2007, we offered the *Talk 'N Text GaanSIM* for Php30 with pre-stored air time of Php1 plus 25 free SMS. The promotion period will run until November 18, 2007.

Smart likewise has in place various promotions to stimulate international usage. These include *International Budget Text* packages, which have a limited duration and a varying number of allowable messages, allow subscribers to send international text to pre-registered recipients of the subscriber's choice, on supported overseas carriers.

Smart also has a roster of 3G services which it commercially launched in May 2006. These services include video calling, video streaming, high-speed internet browsing and downloading of special 3G content, offered at rates similar to those of 2G services.

The following table summarizes key measures of our cellular business as at and for the nine months ended September 30, 2007 and 2006:

	Nine Months Ended September 30,			
			Increase	
	2007	2006	Amount	%
(in millions)		(Unaudited)		
Cellular service revenues	Php61,121	Php56,086	Php5,035	9
By component	*59,517*	*54,608*	*4,909*	*9*
Voice	26,858	26,168	690	3
Data	32,659	28,440	4,219	15
By service type	*59,517*	*54,608*	*4,909*	*9*
Prepaid	55,101	50,921	4,180	8
Postpaid	4,416	3,687	729	20
Others(1)	*1,604*	*1,478*	*126*	*9*

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

	September 30,			
			Increase	
	2007	2006	Amount	%
		(Unaudited)		
Cellular subscriber base	28,260,095	22,929,431	5,330,664	23
Prepaid	27,921,504	22,618,675	5,302,829	23
Smart	*19,576,658*	*16,238,917*	*3,337,741*	*21*
Piltel	*8,344,846*	*6,379,758*	*1,965,088*	*31*
Postpaid	338,591	310,756	27,835	9

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2007	2006	Amount	%
		(Unaudited)		
Systemwide traffic volumes (in millions)				
Calls (in minutes)	4,690	4,208	482	11
Domestic – outbound	2,806	2,578	228	9
International	1,884	1,630	254	16
Inbound	*1,737*	*1,509*	*228*	*15*
Outbound	*147*	*121*	*26*	*21*
SMS count	160,168	178,420	(18,252)	(10)
Text messages	158,655	176,640	(17,985)	(10)
Standard	*19,278*	*23,823*	*(4,545)*	*(19)*
Bucket-Priced	*139,183*	*152,654*	*(13,471)*	*(9)*
International	*194*	*163*	*31*	*19*
Value-Added Services	1,480	1,756	(276)	(16)
Financial Services	33	24	9	38

As at September 30, 2007, Smart and Piltel cellular subscribers totaled 28,260,095, an increase of 5,330,664, or 23%, over their combined cellular subscriber base of 22,929,431 as at September 30, 2006. Prepaid subscribers accounted for 99% of our total subscriber base as at September 30, 2007 and 2006. Prepaid and postpaid subscribers totaled 27,921,504 and 338,591 as at September 30, 2007, reflecting net subscriber activations of 4,064,683 and 20,028, respectively, in the first nine months of

2007.

Revenues attributable to our cellular prepaid service amounted to Php55,101 million in the first nine months of 2007, an 8% increase over the Php50,921 million earned in the same period in 2006. Prepaid service revenues in the first nine months of 2007 and 2006 accounted for 93% of voice and data revenues. Revenues attributable to Smart's postpaid service amounted to Php4,416 million in the first nine months of 2007, a 20% increase over the Php3,687 million earned in the same period in 2006, and accounted for 7% of voice and data revenues in 2007 and 2006.

Voice Services

Cellular revenues from voice services, which include all voice traffic and voice value-added services such as voice mail and international roaming, increased by Php690 million, or 3%, to Php26,858 million in the first nine months of 2007 from Php26,168 million in the same period in 2006 primarily due to an increase in domestic voice, international long distance and voice roaming revenues, and domestic and international inbound revenues. The increase in domestic and international outbound and inbound revenues may be attributed to increased traffic mainly on account of subscriber growth.

Air time rates for postpaid subscribers vary depending on the type of postpaid plan selected by subscribers.

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as value-added services, increased by Php4,219 million, or 15%, to Php32,659 million in the first nine months of 2007 from Php28,440 million in the same period in 2006. Cellular data services accounted for 53% of cellular service revenues in the first nine months of 2007 as compared to 51% in the same period in 2006.

The following table shows the breakdown of cellular data revenues for the nine months ended September 30, 2007 and 2006:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
(in millions)		(Unaudited)		
Text messaging				
Domestic	Php29,059	Php24,156	Php4,903	20
Standard	*15,021*	*16,640*	*(1,619)*	*(10)*
Bucket-Priced	*14,038*	*7,516*	*6,522*	*87*
International	1,383	1,425	(42)	(3)
	30,442	25,581	4,861	19
Value-added services				
Standard(1)	1,428	1,967	(539)	(27)
Rich Media(2)	254	200	54	27
Pasa Load	472	642	(170)	(26)
	2,154	2,809	(655)	(23)
Financial services				
Smart Money	60	47	13	28
Mobile Banking	3	3	–	–
	63	50	13	26
Total	Php32,659	Php28,440	Php4,219	15

(1) Includes standard services such as info-on-demand, ringtone and logo downloads, etc.
(2) Includes MMS, WAP, GPRS, etc.

Text messaging-related services contributed revenues of Php30,442 million in the first nine months of 2007, an increase of Php4,861 million, or 19%, compared to Php25,581 million in the same period in 2006, and accounted for 93% and 90% of the total cellular data revenues in the first nine months of 2007 and 2006, respectively. The increase in revenues from text messaging-related services resulted mainly from Smart's various bucket-priced text promotional offerings. Text messaging revenues from the various bucket plans totaled Php14,038 million in the first nine months of 2007, an increase of Php6,522 million, or 87%, compared to Php7,516 million in the same period in 2006.

Standard text messages totaled 19,278 million in the first nine months of 2007, a decrease of 4,545 million, or 19%, from 23,823 million in the same period in 2006 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in the first nine months of 2007 totaled 139,183 million, a decrease of 13,471 million, or 9%, as compared to 152,654 million in the same period in 2006 mainly on account of the introduction in late 2006 of low-denomination text packages with a fixed number of SMS including off-network messages. While these promotional text offerings resulted in reduced traffic for *Smart 258 Unlimited Text* service, the yield per SMS improved significantly resulting in increased text revenues.

Value-added services, which contributed revenues of Php2,154 million in the first nine months of 2007, decreased by Php655 million, or 23%, from Php2,809 million in the same period of 2006 primarily due to lower usage of standard services and *Pasa Load*, partially offset by higher usage of rich media services in the first nine months of 2007 as compared to the same period in 2006.

Subscriber Base, ARPU and Churn Rates

Prepaid subscribers accounted for approximately 99% of our 28,260,095 subscribers as at September 30, 2007, while postpaid subscribers accounted for the remaining 1%. The cellular prepaid subscriber base grew by 23% to 27,921,504 as at September 30, 2007 from 22,618,675 as at September 30, 2006, whereas the postpaid subscriber base increased by 9% to 338,591 as at September 30, 2007 from 310,756 as at September 30, 2006.

Our net subscriber activations for the nine months ended September 30, 2007 and 2006 were as follows:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
		(Unaudited)		
Prepaid	4,064,683	2,490,132	1,574,551	63
Smart	2,694,216	1,094,799	1,599,417	146
Piltel	1,370,467	1,395,333	(24,866)	(2)
Postpaid	20,028	30,678	(10,650)	(35)
Total	4,084,711	2,520,810	1,563,901	62

The following table summarizes our cellular ARPUs for the nine months ended September 30, 2007 and 2006:

	Nine Months Ended September 30,							
	Gross		Increase (Decrease)		Net		Increase (Decrease)	
	2007	2006	Amount	%	2007	2006	Amount	%
	(Unaudited)							
Prepaid								
Smart	Php314	Php341	(Php27)	(8)	Php257	Php290	(Php33)	(11)
Piltel	222	231	(9)	(4)	186	197	(11)	(6)
Prepaid – Blended	287	312	(25)	(8)	236	265	(29)	(11)
Postpaid – Smart	2,086	1,893	193	10	1,491	1,401	90	6
Prepaid and Postpaid Blended	309	333	(24)	(7)	252	280	(28)	(10)

ARPU is computed for each month by dividing the revenues for the relevant services for the month by the average of the number of subscribers at the beginning and at the end of the month. Gross monthly ARPU is computed by dividing the revenues for the relevant services, gross of discounts and allocated content-provider costs, including interconnection income but excluding inbound roaming revenues, by the average number of subscribers. Net monthly ARPU, on the other hand, is calculated based on revenues net of discounts and allocated content-provider costs and interconnection income net of interconnection expense. ARPU for any period of more than one month is calculated as the simple average of the monthly ARPUs in that period.

Prepaid service revenues consist mainly of charges for subscribers' actual usage of their loads. Prepaid blended ARPU in the first nine months of 2007 was Php287, a decrease of 8%, compared to Php312 in the same period in 2006. The average outbound domestic and international voice as well as the average value-added services and inbound revenue per subscriber declined in the first nine months of 2007 compared to the same period in 2006, but were partly offset by an increase in the average text messaging revenue per subscriber. On a net basis, prepaid blended ARPU in the first nine months of 2007 was Php236, a decrease of 11%, compared to Php265 in the same period in 2006.

Monthly ARPU for Smart's postpaid services is calculated in a manner similar to that of prepaid service, except that the revenues consist mainly of monthly service fees and charges on usage in excess of the monthly service fees.

Gross monthly ARPU for postpaid subscribers increased by 10% to Php2,086 while net monthly ARPU increased by 6% to Php1,491 in the first nine months of 2007 as compared to Php1,893 and Php1,401 in the same period in 2006, respectively. Prepaid and postpaid monthly gross blended ARPU was Php309 in the first nine months of 2007, a decrease of 7%, compared to Php333 in the same period in 2006. Monthly net blended ARPU decreased by 10% to Php252 in the first nine months of 2007 as compared to Php280 in the same period in 2006.

Our quarterly prepaid and postpaid ARPUs for the nine months ended September 30, 2007 and 2006 were as follows:

	Prepaid				Postpaid	
	Smart		Piltel		Smart	
	Gross	Net	Gross	Net	Gross	Net
			(Unaudited)			
2007						
First Quarter	Php323	Php267	Php228	Php187	Php2,045	Php1,483
Second Quarter	324	265	233	198	2,141	1,526
Third Quarter	293	239	206	173	2,073	1,464
2006						
First Quarter	Php356	Php294	Php245	Php207	Php1,867	Php1,386
Second Quarter	344	294	234	202	1,920	1,414
Third Quarter	323	280	213	184	1,891	1,403
Fourth Quarter	332	286	213	184	1,939	1,425

Churn, or the rate at which existing subscribers have their service cancelled in a given period, is computed based on total disconnections in the period, net of reconnections in the case of postpaid subscribers, divided by the average of the number of subscribers at the beginning and at the end of a month, all divided by the number of months in the same period.

We recognize a prepaid cellular subscriber as an active subscriber when that subscriber activates and uses the SIM card in the subscriber's handset, which contains pre-stored air time. The pre-stored air time, equivalent to Php1 plus 50 free SMS, can only be used upon purchase or reload of air time of any value. Subscribers can reload their air time by purchasing prepaid "call and text" cards; by purchasing additional air time "over the air" via *Smart Load*, *All Text* or *Smart Connect*; and by receiving loads of Php2, Php5, Php10 and Php15 via *Pasa Load*, or through their handsets using *Smart Money*. Reloads have validity periods ranging from one day to two months, depending on the amount reloaded. A prepaid cellular subscriber is disconnected if the subscriber does not reload within four months after the full usage or expiry of the last reload. Our current policy is to recognize a prepaid subscriber as "active" only when the subscriber activates and uses the SIM card and reloads at least once during the month of initial activation or in the immediate succeeding month.

For Smart prepaid, the average monthly churn rate for the first nine months of 2007 and 2006 were 3.1% and 3.2%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers was 3.5% in the first nine months of 2007 and 2006.

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

Wireless Broadband, Satellite, VSAT and Other Services

Our revenues from wireless broadband, satellite, VSAT and other services consist of wireless broadband service revenues for Smart Broadband, rentals received for the lease of Mabuhay Satellite's transponders and Telesat's VSAT facilities to other companies, charges for ACeS Philippines' satellite information and messaging services and service revenues generated from PLDT Global's subsidiaries. Gross revenues from these services for the first nine months of 2007 amounted to Php2,938 million, an increase of Php1,008 million, or 52%, from Php1,930 million in the same period in 2006 principally due to the growth in our wireless broadband business partially offset by lower satellite transponder rental revenues.

Smart Broadband offers a number of wireless broadband services and had 259,477 subscribers as at September 30, 2007 as compared to 92,922 in the same period in 2006. *SmartBro*, the fixed wireless broadband service of Smart linked to Smart's wireless broadband-enabled base stations, allows people to connect to the internet using an outdoor aerial antenna installed in a subscriber's home. Wireless broadband revenues contributed Php1,597 million in the first nine months of 2007, increasing by Php1,088 million, or 214%, from Php509 million in the same period in 2006.

We also offer *PLDT WeRoam*, a wireless broadband service, running on Smart's nationwide wireless network (using GPRS, EDGE and WiFi technologies) and PLDT's extensive IP infrastructure. Some of the recent enhancements to this service are the inclusion of international roaming in key roaming countries all over the world and national WiFi roaming access. Principally targeted at the corporate market, this service had 12,239 subscribers as at September 30, 2007 compared to 8,000 subscribers as at September 30, 2006 and contributed Php92 million to our data revenues, increasing by 64% from Php56 million in the same period in 2006.

Non-service Revenues

Our wireless non-service revenues consist of:

- proceeds from sales of cellular handsets; and
- proceeds from sales of cellular SIM-packs.

Our wireless non-service revenues decreased by Php212 million, or 12%, to Php1,630 million in the first nine months of 2007 as compared to Php1,842 million in the same period in 2006 primarily due to a lower volume of postpaid handsets sold and a lower average revenue per handset and SIM-pack, partly offset by a higher volume of prepaid handsets and SIM-packs sold in the first nine months of 2007.

Other Income

All other income/gains such as rental income, gain on disposal of property and which do not fall under service and non-service revenues are included under this classification. Our wireless business segment generated other income of Php718 million in the first nine months of 2007, an increase of Php88 million, or 14%, as compared to Php630 million in the same period in 2006.

Expenses

Expenses associated with our wireless business in the first nine months of 2007 amounted to Php32,339 million, an increase of Php684 million, or 2%, from Php31,655 million in the same period in 2006. A significant portion of this increase was attributable to higher depreciation and amortization, rent and selling and promotions expenses partially offset by net financing gains. As a percentage of our total wireless revenues and other income, expenses associated with our wireless business accounted for 49% and 52% in the first nine months of 2007 and 2006, respectively.

Cellular business expenses accounted for 92% of our wireless business expenses, while wireless broadband, satellite, VSAT and other business expenses accounted for the remaining 8% of our wireless business expenses in the first nine months of 2007 and 2006.

The following table summarizes the breakdown of our wireless-related expenses for the nine months ended September 30, 2007 and 2006 and the percentage of each expense item to the total:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
Wireless services						
Depreciation and amortization	Php8,907	28	Php7,948	25	Php959	12
Rent	6,274	19	5,157	16	1,117	22
Compensation and benefits(1)	3,730	12	3,928	12	(198)	(5)
Cost of sales	3,443	11	3,600	11	(157)	(4)
Selling and promotions	2,836	9	2,032	7	804	40
Maintenance	2,635	8	2,688	9	(53)	(2)
Professional and other contracted services	1,632	5	1,332	4	300	23
Taxes and licenses	922	3	754	2	168	22
Communication, training and travel	773	2	632	2	141	22
Insurance and security services	564	2	620	2	(56)	(9)
Provisions	272	1	397	1	(125)	(31)
Amortization of intangible assets	124	–	236	1	(112)	(47)
Financing costs (gains)	(527)	(2)	1,845	6	(2,372)	(129)
Other expenses	754	2	486	2	268	55
Total	Php32,339	100	Php31,655	100	Php684	2

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

Depreciation and amortization charges increased by Php959 million, or 12%, to Php8,907 million in the first nine months of 2007, principally due to an increase in our depreciable asset base mainly transmission facilities, 3G and broadband networks, and broadband customer-deployed equipment.

Rent expenses increased by Php1,117 million, or 22%, to Php6,274 million on account of an increase in domestic fiber optic network, or DFON, facilities and transmission circuits leased by Smart from PLDT, as well as higher site rental expenses. As at September 30, 2007, we had 4,817 GSM cell sites and 7,401 base stations, compared with 4,365 GSM cell sites and 6,079 base stations as at September 30, 2006.

Compensation and benefits expenses decreased by Php198 million, or 5%, to Php3,730 million primarily due to lower accrued long-term incentive plan, or LTIP, benefit and MRP costs, partly offset by employees' basic pay increase, higher accrued bonuses and other employee benefits of Smart. Smart and subsidiaries' employee headcount increased by 20 to 5,294 in the first nine months of 2007 as compared to 5,274 in the same period in 2006. For further discussion on our LTIP, please see *Note 21 – Employee Benefits* to the accompanying unaudited consolidated financial statements.

Cost of sales decreased by Php157 million, or 4%, to Php3,443 million due to lower average cost of handsets and SIMs. The breakdown of cost of sales for our wireless business for the nine months ended September 30, 2007 and 2006 is as follows:

	Nine Months Ended September 30,			
			Decrease	
	2007	2006	Amount	%
	(Unaudited)			
(in millions)				
Cost of cellular handsets and SIM-packs sold	Php3,321	Php3,454	(Php133)	(4)
Cost of satellite air time and terminal units	122	146	(24)	(16)
	Php3,443	Php3,600	(Php157)	(4)

Selling and promotion expenses increased by Php804 million, or 40%, to Php2,836 million due to higher advertising, promotion and commission expenses, partly offset by a decrease in printing cost of prepaid cards with the prevalence of e-loading.

Maintenance expenses decreased by Php53 million, or 2%, to Php2,635 million mainly due to lower repairs and maintenance costs for network facilities and IT software, and a decrease in fuel costs for power generation, partly offset by higher expenses for electricity consumption for cell sites.

Professional and other contracted services increased by Php300 million, or 23%, to Php1,632 million primarily due to higher expenses for contracted services, consultancy and technical services, market research and advisory fees.

Taxes and licenses increased by Php168 million, or 22%, to Php922 million primarily due to higher non-creditable input tax and the Philippine National Telecommunications Commission, or NTC, licenses and fees, partly offset by lower business-related taxes and licenses.

Communication, training and travel expenses increased by Php141 million, or 22%, to Php773 million mainly due to higher mailing and courier charges, and local travel expenses.

Insurance and security services decreased by Php56 million, or 9%, to Php564 million primarily due to the decrease in site security expenses and lower charges on insurance contracts.

Provisions decreased by Php125 million, or 31%, to Php272 million primarily due to a lower level of write-down of slow-moving handsets to net realizable values.

Amortization of intangible assets decreased by Php112 million, or 47%, to Php124 million mainly due to intangible assets relating to technology application arising from the acquisition of Wolfpac which was fully amortized by the end of 2006.

We recognized net financing gains of Php527 million in the first nine months of 2007 as compared to a net financing costs of Php1,845 million in the same period in 2006 due to lower accretion on financial liabilities due to the settlement of Piltel's debt complemented by the appreciation of the Philippine peso to the U.S. dollar in 2007, partly offset by lower interest income and capitalized interest. The breakdown of our financing costs (gains) for our wireless business for the nine months ended September 30, 2007 and 2006 is as follows:

	Nine Months Ended September 30,			
			Change	
	2007	2006	Amount	%
		(Unaudited)		
(in millions)				
Interest on loans and related items	Php1,205	Php1,274	(Php69)	(5)
Accretion on financial liabilities – net	665	2,887	(2,222)	(77)
Financing charges	37	33	4	12
Dividends on preferred stock subject to mandatory redemption	14	113	(99)	(88)
Gain on derivative transactions – net	(48)	(24)	(24)	100
Capitalized interest	(124)	(205)	81	(40)
Interest income	(860)	(911)	51	(6)
Foreign exchange gains – net	(1,416)	(1,322)	(94)	7
	(Php527)	Php1,845	(Php2,372)	(129)

Other expenses increased by Php268 million, or 55%, to Php754 million primarily due to various business and operational-related expenses.

Provision for Income Tax

Provision for income tax increased by Php8,045 million, or 262%, to Php11,121 million in the first nine months of 2007 from Php3,076 million in the same period in 2006. In the first nine months of 2007, the effective tax rate for our wireless business was 33% as compared to 11% in the same period in 2006 mainly due to the recognition of deferred tax assets of Piltel in 2006.

Net Income

Our wireless business segment recorded a net income of Php22,947 million in the first nine months of 2007, a decrease of Php2,810 million, or 11%, over Php25,757 million registered in the same period in 2006 on account of higher provision for income tax largely due to Piltel's recognition of deferred tax assets in 2006.

Fixed Line

Revenues and Other Income

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Total fixed line revenues generated from our fixed line business in the first nine months of 2007 totaled Php36,242 million, a decrease of Php387 million, or 1%, from Php36,629 million in the same period in 2006.

The following table summarizes revenues from our fixed line business for the nine months ended September 30, 2007 and 2006 by service segment:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
Fixed line services:						
Service Revenues						
Local exchange	Php11,889	33	Php12,862	35	(Php973)	(8)
International long distance	6,685	19	7,434	20	(749)	(10)
National long distance	4,864	13	5,117	14	(253)	(5)
Data and other network	11,180	31	9,420	26	1,760	19
Miscellaneous	1,046	3	1,068	3	(22)	(2)
	35,664	99	35,901	98	(237)	(1)
Non-Service Revenues	119	–	71	–	48	68
Other Income	459	1	657	2	(198)	(30)
Total Fixed Line Revenues and Other Income	Php36,242	100	Php36,629	100	(Php387)	(1)

Service Revenues

Local Exchange Service

Our local exchange service revenues consist of:

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

The following table summarizes key measures of our local exchange service business as at and for the nine months ended September 30, 2007 and 2006:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2007	2006	Amount	%
		(Unaudited)		
Total local exchange service revenues (in millions)	Php11,889	Php12,862	(Php973)	(8)
Number of fixed line subscribers	1,751,468	1,747,357	4,111	–
Postpaid	1,454,678	1,443,893	10,785	1
Prepaid	296,790	303,464	(6,674)	(2)
Number of fixed line employees	8,057	9,110	(1,053)	(12)
Number of fixed line subscribers per employee	217	192	25	13

Revenues from our local exchange service decreased by Php973 million, or 8%, to Php11,889 million in the first nine months of 2007 from Php12,862 million in the same period in 2006. The decrease was primarily due to the appreciation of the peso which required us to make downward adjustments in our monthly local service rates and the change in subscriber base mix in favor of prepaid subscribers with lower average revenue per user. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 33% in the first nine months of 2007 as compared to 36% in the same period in 2006.

Initially intended as an affordable alternative telephone service for consumers under difficult economic conditions, our prepaid fixed line services now form an important part of our overall churn and credit risk exposure management and subscriber retention strategy. PLDT currently has three prepaid fixed line services: *Teletipid* and *Telesulit,* both funded by consumable prepaid cards, and the *Telepwede,* which is funded by e-loads (available at Smart or PLDT e-load retailers). *Telepwede* subscribers are charged Php115 to receive incoming calls and can reload for as low as Php30 to make outgoing calls. Local call rates are made more affordable at Php2 per call, unlimited. Upon the launch of *Telepwede*, PLDT stopped offering *Teletipid* and *Telesulit* to new subscribers. PLDT is constrained to discontinue *Teletipid* and *Telesulit* as they run on an old technology platform which has now become obsolete and such platform will be fully retired by May 1, 2008. Last day of reloading was set last November 1, 2007 allowing subscribers ample time to consume their account balances and complete the maximum account life up to May 1, 2008. Subscribers of *Teletipid* and *Telesulit* were advised via print ads, direct mailers and call outs of their option to upgrade to *Telepwede* or to regular PLDT postpaid.

In March 2007, PLDT launched the PLDT Landline Plus, a fixed wireless service where subscribers to the service benefit from a text-capable home phone. This service is initially offered outside Metro Manila with the phone unit at Php2,400 and a monthly service fee of Php600 and Php1,000 for residential and business subscribers, respectively. As at September 30, 2007, there were a total of 13,250 PLDT Landline Plus subscribers.

Pursuant to a currency exchange rate adjustment, or CERA, mechanism authorized by the NTC, we adjust our postpaid monthly local service rates upward or downward by 1% for every Php0.10 change in the peso-to-dollar exchange rate relative to a base rate of Php11.00 to US$1.00. In the first nine months of 2007, we implemented five downward adjustments and one upward adjustment in our monthly local service rates, while there were six downward adjustments and three upward adjustments in the same period in 2006. The average Philippine peso to U.S. dollar rate factored in our monthly local service rates in the first nine months of 2007 was Php48.30 to US$1.00, compared to an average of Php52.03 to US$1.00 in the same period in 2006. This change in the average peso-to-dollar rate translated to a peso appreciation of 7%, which resulted in a net decrease of approximately 7% in our average monthly local service rates in the first nine months of 2007. In its letter dated July 16, 2007, the NTC has approved our request to use annual average exchange rates as our basis in CERA computation instead of the currently used monthly averages. Accordingly, effective August 18, 2007, our CERA computation is based on the average Philippine peso to U.S. dollar exchange rate of Php49.76 covering the period July 2006 to June 2007.

International Long Distance Service

Our international long distance service revenues, which we generate through our international gateway facilities, consist of:

- inbound call revenues representing settlements from foreign telecommunications carriers for inbound international calls, virtual transit and hubbing service and reverse charged calls such as received collect and home country direct service;

- access charges paid to us by other Philippine telecommunications carriers for terminating inbound international calls to our local exchange network; and

- outbound call revenues representing amounts billed to our customers (other than our cellular customers) for outbound international calls, net of amounts payable to foreign telecommunications carriers for terminating calls in their territories.

The following table shows information about our international fixed line long distance business for the nine months ended September 30, 2007 and 2006:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2007	2006	Amount	%
	(Unaudited)			
Total international long distance service revenues (in millions)	Php6,685	Php7,434	(Php749)	(10)
Inbound	5,506	6,220	(714)	(11)
Outbound	1,179	1,214	(35)	(3)
International call volumes (in million minutes, except call ratio)	1,702	1,582	120	8
Inbound	1,493	1,442	51	4
Outbound	209	140	69	49
Inbound-outbound call ratio	7.1:1	10.3:1	–	–

Our total international long distance service revenues decreased by Php749 million, or 10%, to Php6,685 million in the first nine months of 2007 from Php7,434 million in the same period in 2006 primarily due to the peso appreciation and a decrease in average termination rates for inbound calls mitigated by an increase in call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 19% in the first nine months of 2007 from 21% in the same period in 2006.

Our revenues from inbound international long distance service decreased by Php714 million, or 11%, to Php5,506 million due to the appreciation of the Philippine peso to the U.S. dollar coupled with a decrease in average rate per minute due to the change in call mix with more traffic terminating to cellular operators where the net revenue kept by us is lower. These decreasing effects were partially offset by an increase in inbound traffic volume by 51 million minutes to 1,493 million minutes in the first nine months of 2007. The appreciation of the Philippine peso to the U.S. dollar with average exchange rates of Php47.53 in the first nine months of 2007 and Php52.19 in the same period in 2006 contributed to the decrease in our inbound international long distance revenues in peso terms, since settlement charges for inbound calls are billed in U.S. dollars or in special drawing rights, an established method of settlement among international telecommunications carriers using values based on a basket of foreign currencies that are translated into pesos at the time of billing.

Our revenues from outbound international long distance service decreased by Php35 million, or 3%, to Php1,179 million in the first nine months of 2007 primarily due to a decline in average revenue per minute as a result of a lower average collection rate with the introduction of low-rate services such as *PLDT ID-DSL* and *Budget Card*, and the peso appreciation in 2007, which more than offset the increase in outbound international call volumes in 2006.

National Long Distance Service

Our national long distance service revenues consist of:

- per minute charges for calls made by our fixed line customers outside of the local service areas but within the Philippines, net of interconnection charges payable for calls carried through the backbone network of, and/or terminating to the customer of, another telecommunications carrier;

- access charges received from other telecommunications carriers for calls carried through our backbone network and/or terminating to our customers; and

- fixed charges paid by other telephone companies, charges retained by PLDT for calls terminating to cellular subscribers within the local area, and local access charges paid by cellular operators for calls by cellular subscribers that terminate to our local exchange network.

The following table shows our national long distance service revenues and call volumes for the nine months ended September 30, 2007 and 2006:

	Nine Months Ended September 30,			
			Decrease	
	2007	**2006**	**Amount**	**%**
	(Unaudited)			
Total national long distance service revenues (in millions)	Php4,864	Php5,117	(Php253)	(5)
National long distance call volumes (in million minutes)	1,652	1,688	(36)	(2)

Our national long distance service revenues decreased by Php253 million, or 5%, to Php4,864 million in the first nine months of 2007 from Php5,117 million in the same period in 2006 primarily due to a decrease in call volumes coupled with a lower average revenue per minute in the first nine months of 2007. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 14% in the first nine months of 2007 and 2006.

Data and Other Network Services

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

The following table shows information about our data and other network service revenues for the nine months ended September 30, 2007 and 2006:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
	(Unaudited)			
Data and other network service revenues (in millions)	Php11,180	Php9,420	Php1,760	19
Number of DSL broadband subscribers	229,534	118,679	110,855	93
Number of *PLDT Vibe* narrowband subscribers	268,984	294,778	(25,794)	(9)

In the first nine months of 2007, our data and other network services posted revenues of Php11,180 million, an increase of Php1,760 million, or 19%, from Php9,420 million in the same period in 2006 primarily due to increases in leased lines, IP-based and switched-based data services, particularly Diginet and DFON rental, and *PLDT DSL* mitigated by lower *PLDT Vibe* services. The percentage contribution of this service segment to our fixed line service revenues increased to 31% in the first nine months of 2007 from 26% in the same period in 2006.

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

DSL contributed revenues of Php2,764 million in the first nine months of 2007, an increase of Php432 million, or 19%, from Php2,332 million in the same period in 2006 primarily due to an increase in the number of subscribers. *DSL* reached 229,534 subscribers as at September 30, 2007 compared with 118,679 subscribers in the same period in 2006. *DSL* offers a number of packages with maximum speeds ranging from 88 kbps to 5 Mbps depending on the plan.

PLDT Vibe revenues decreased by Php82 million, or 28%, to Php206 million in the first nine months of 2007 from Php288 million in the same period in 2006 primarily due to lower number of plan subscribers as well as the declining usage of Vibe prepaid. The declining number of Vibe plans and regular monthly users for Vibe prepaid may be attributed to the migration from Vibe dial-up to *DSL* which is now priced more competitively. As at September 30, 2007, *PLDT Vibe* registered users totaled 268,984, of which 76,122 were exclusive postpaid users, 187,263 were exclusive prepaid users, and 5,599 were both postpaid and prepaid users. As at September 30, 2006, *PLDT Vibe* registered users totaled 294,778, of which 111,137 were exclusive postpaid users, 168,815 were exclusive prepaid users, and 14,826 were both postpaid and prepaid users.

In support of the growing data requirements of the small and medium enterprise market, the network footprints of BRAINS, IP-VPN and *Shops.work*, PLDT's private local networking services, have been expanded with the roll-out of Next Generation Network, or NGN, facilities in key business areas across the country.

The continued growth in data services revenues can be attributed to several product offerings. The steady demand for dedicated connectivity or private networking from the corporate market using PLDT's traditional international and domestic data offerings – Fibernet, Arcstar, Acacia, I-Gate, Diginet, BRAINS, IP-VPN and *Shops.work*, among others – continues to provide us with a stable revenue source.

On October 17, 2007, PLDT, with its robust and reliable nationwide telecommunications network, teamed up with Intel to offer the Simplified Networks on Auto Pilot, or SNAP, a turn-key and cost-effective IT networking solution that can help increase profitability and competitiveness. For a flat monthly fee arrangement, SNAP handles a company's IT requirements which includes the latest Intel processors and hardware components, server solutions, technical support and broadband connectivity.

Diginet, our domestic private leased line service, has been providing Smart's increasing fiber optic and leased line data requirements. Diginet revenues increased by Php841 million, or 20%, to Php5,118 million in the first nine months of 2007 as compared to Php4,277 million in the same period in 2006 mainly due to Smart's DFON rental of Php3,833 million and Php3,011 million in the first nine months of 2007 and 2006, respectively.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising and facilities management and rental fees. In the first nine months of 2007, these revenues decreased by Php22 million, or 2%, to Php1,046 million from Php1,068 million in the same period in 2006 mainly due to a decline in facilities management fees, mitigated by an increase in 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 the first nine months of 2007 and 2006.

Non-service Revenues

Non-service revenues increased by Php48 million, or 68%, to Php119 million in the first nine months of 2007 from Php71 million in the same period in 2006 primarily due to higher computer sales in relation to our DSL promotion.

Other Income

All other income/gains such as rental income and gain on disposal of property, which do not fall under service and non-service revenues, are included under this classification. In the first nine months of 2007, our fixed line business segment registered a decrease in other income of Php198 million, or 30%, to Php459 million from Php657 million in the same period in 2006 mainly due to lower income from disposal of assets and various materials.

Expenses

Expenses related to our fixed line business totaled Php30,264 million in the first nine months of 2007, a decrease of Php5,718 million, or 16%, as compared to Php35,982 million in the same period in 2006. The decrease was primarily due to lower depreciation and amortization, selling and promotion expenses, and financing costs partially offset by higher professional and other contracted services, taxes and licenses, and compensation and benefits.

The following table shows the breakdown of our total fixed line-related expenses for the nine months ended September 30, 2007 and 2006 and the percentage of each expense item to the total:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
Fixed line services:						
Depreciation and amortization	Php9,330	31	Php15,248	42	(Php5,918)	(39)
Compensation and benefits[(1)]	7,879	26	7,519	21	360	5
Financing costs	4,386	15	5,331	15	(945)	(18)
Maintenance	2,730	9	2,442	7	288	12
Professional and other contracted services	1,243	4	682	2	561	82
Rent	1,205	4	1,202	3	3	–
Provisions	857	3	478	1	379	79
Selling and promotions	831	3	1,345	4	(514)	(38)
Taxes and licenses	728	2	491	2	237	48
Insurance and security services	330	1	388	1	(58)	(15)
Communication, training and travel	319	1	369	1	(50)	(14)
Cost of sales	118	–	113	–	5	4
Other expenses	308	1	374	1	(66)	(18)
Total	Php30,264	100	Php35,982	100	(Php5,718)	(16)

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

Depreciation and amortization charges decreased by Php5,918 million, or 39%, to Php9,330 million due to higher additional depreciation charges recognized by PLDT in 2006 on certain properties and equipment affected by our NGN roll-out. In the first nine months of 2007, we recognized additional depreciation of Php1,100 million relating to Piltel's equipment that are also affected by the NGN roll-out.

Compensation and benefits expenses increased by Php360 million, or 5%, to Php7,879 million primarily due to the effect of collective bargaining agreement-related increases in salaries and benefits, and an increase in pension benefits and MRP costs, partially offset by the lower costs of LTIP. For further discussion on our LTIP, please see *Note 21 – Employee Benefits* to the accompanying unaudited consolidated financial statements.

Financing costs decreased by Php945 million, or 18%, to Php4,386 million largely due to lower interest on loans and related items and lower hedge costs. These were partially offset by higher loss on derivative transactions and lower interest income. The breakdown of financing costs for our fixed line business for the nine months ended September 30, 2007 and 2006 is as follows:

	Nine Months Ended September 30,			
			Change	
	2007	2006	Amount	%
		(Unaudited)		
(in millions)				
Interest on loans and related items	Php3,800	Php4,826	(Php1,026)	(21)
Hedge costs	908	1,090	(182)	(17)
Loss on derivative transactions	353	175	178	102
Accretion on financial liabilities – net	130	156	(26)	(17)
Financing charges	1	11	(10)	(91)
Interest income	(238)	(373)	135	(36)
Capitalized interest	(275)	(223)	(52)	23
Foreign exchange gains – net	(293)	(331)	38	(11)
	Php4,386	Php5,331	(Php945)	(18)

Maintenance expenses increased by Php288 million, or 12%, to Php2,730 million primarily due to higher maintenance costs for domestic cable and wire facilities as more operating and maintenance-related restorations were incurred in the first nine months of 2007 as compared to the same period in 2006.

Professional and other contracted services increased by Php561 million, or 82%, to Php1,243 million primarily due to PLDT's higher consultancy service fees coupled with higher contracted services.

Rent expenses increased by Php3 million to Php1,205 million due to an increase in pole rental charges and higher office and building rentals, partially offset by the decrease in transponder lease and domestic leased circuit charges.

Provisions increased by Php379 million, or 79%, to Php857 million primarily due to higher provision of doubtful accounts as a result of higher than anticipated uncollectible receivables complemented by higher provision for assessments in the first nine months of 2007 compared to the same period in 2006.

Selling and promotion expenses decreased by Php514 million, or 38%, to Php831 million primarily as a result of a collective effort in efficient media spending in relation to various products and services, partially offset by higher public relations expense.

Taxes and licenses increased by Php237 million, or 48%, to Php728 million, mainly on account of higher business-related taxes.

Insurance and security services decreased by Php58 million, or 15%, to Php330 million primarily due to lower premiums on property all-risk, industrial all-risk and industrial fire insurance.

Communication, training and travel expenses decreased by Php50 million, or 14%, to Php319 million due to the decrease in mailing and courier charges, and local and foreign travel.

Cost of sales increased by Php5 million, or 4%, to Php118 million due to the higher computer-bundled sales in relation to our DSL promotion and *WeRoam* subscriptions.

Other expenses decreased by Php66 million, or 18%, to Php308 million due to lower various business and operational-related expenses.

Provision for Income Tax

Provision for income tax amounted to Php1,980 million in the first nine months of 2007 as compared to Php60 million in the same period in 2006 primarily due to higher taxable income as a result of lower depreciation in 2007.

Net Income

In the first nine months of 2007, our fixed line business segment contributed a net income of Php3,998 million, an increase of Php3,411 million, or 581%, as compared to Php587 million in the same period in 2006 mainly as a result of a 16% decrease in fixed line-related expenses, particularly depreciation and amortization partially offset by a slight decrease in our service revenues.

Information and Communications Technology

Revenues and Other Income

Our ICT business provides BPO, call center, internet and online gaming, data center and other services.

On April 16, 2007, SPi acquired, through a wholly-owned US subsidiary, 100% of Springfield Service Corporation, or Springfield, for an aggregate purchase price of US$35 million, or Php1,664 million, plus possible future earn-out payments with an aggregate fair value at acquisition date of Php962 million. Springfield is one of the largest players in the medical billing and revenue cycle management market. As at September 30, 2007, SPi's total investment in Springfield amounted to Php2,685 million, including fair value of possible future earn-out payments of Php960 million and incidental costs of Php59 million, see *Note 11 – Goodwill and Intangible Assets* to the accompanying unaudited financial statements for related discussion.

For further discussion, see *Note 2 – Summary of Accounting Policies and Practices – Basis of Preparation* to the accompanying unaudited consolidated financial statements.

In the first nine months of 2007, our ICT business generated revenues of Php7,643 million, an increase of Php3,497 million, or 84%, from Php4,146 million in the same period in 2006. This increase was largely due to the consolidation of the SPi Group and Level Up! and the continued increase of our call center revenues.

The following table summarizes revenues from our ICT business for the nine months ended September 30, 2007 and 2006 by service segment:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
Service Revenues						
BPO	Php3,989	52	Php930	23	Php3,059	329
Call center	2,357	31	1,920	46	437	23
Internet and online gaming	686	9	561	14	125	22
Vitro™ data center	311	4	287	7	24	8
Others	73	1	90	2	(17)	(19)
	7,416	97	3,788	92	3,628	96
Non-service Revenues						
Point Product Sales	200	3	339	8	(139)	(41)
Other Income	27	–	18	–	9	50
Equity share in net income of associates	–	–	1	–	(1)	(100)
Total ICT Revenues and Other Income	Php7,643	100	Php4,146	100	Php3,497	84

Service Revenues

Service revenues generated by our ICT segment amounted to Php7,416 million in the first nine months of 2007, an increase of Php3,628 million, or 96%, as compared to Php3,788 million in the same period in 2006 primarily as a result of the consolidation of the SPi Group and Level Up! and the continued growth of our call center business.

Business process outsourcing

BPO revenues consist of:

- editorial and content production services to the scholarly scientific, technical and medical (SSTM) journal publishing industry;
- digital content conversion services to information organizations such as online and traditional publishers, libraries, educational institutions, Global 1,000 corporations and government agencies worldwide;
- pre-press project management services to book publishers;
- litigation support services which involve conventional coding and electronic discovery support services for corporations, international law firms, corporate counsels and government agencies;
- conversion services of medical record/data from handwritten or speech format to electronic format and patient scheduling, coding and compliance assistance, consulting and specialized reporting services; and
- revenue cycle management services for U.S. medical facilities.

We provide our BPO services primarily through the SPi Group, which ePLDT acquired on July 11, 2006. BPO contributed revenues of Php3,989 million in the first nine months of 2007, an increase of Php3,059 million, or 329%, from Php930 million in the same period in 2006 primarily from SPi Group services, and accounted for 54% and 25% of total service revenues of our ICT business in the first nine months of 2007 and 2006, respectively.

Call Center

We are focused on developing our call center business which capitalizes on the availability of English-speaking college graduates in the Philippines with a strong customer service orientation. ePLDT has established one umbrella brand name, *ePLDT Ventus*, for all of its call center businesses, including Ventus, Vocativ and Parlance. Ventus provides offshore contact center outsourcing solutions specializing in inbound customer care. Vocativ provides customer and technical support to its clients in the Philippines, United States and the United Kingdom, while Parlance provides exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the United States. In addition, Infocom, through its Customer Service Outsourcing Group, handles PLDT group's nationwide technical helpdesk operations.

Call center revenues consist of:

- inbound calls for customer care, product inquiries, sales and technical support based on active minutes, billable hours and full-time equivalents;
- outbound calls for sales and collections based on active minutes, billable hours and full-time equivalents; and

- service income for e-mail handling, web chat, web co-browsing, data entry and BPO based on transaction volume.

Revenues relating to our call center business increased by Php437 million, or 23%, to Php2,357 million in the first nine months of 2007 from Php1,920 million in the same period in 2006 primarily due to the expansion of our facilities. In total, we own and operate approximately 5,800 seats with 5,010 customer service representatives, or CSRs, as at September 30, 2007 compared to approximately 5,130 seats with 4,010 CSRs as at September 30, 2006. In 2006, *ePLDT Ventus* launched two new sites bringing our total call center site count to seven as at September 30, 2007.

Call center revenues accounted for 32% and 51% of total service revenues of our ICT business in the first nine months of 2007 and 2006, respectively.

Internet and online gaming

Internet service revenues consist of:

- revenues derived from actual usage of the internet access network by prepaid subscribers and any unused peso value of expired prepaid cards or electronic internet time loads, and community access of computers and desktop publishing based on actual usage, net of discounts given to dealers;
- monthly service fees from postpaid corporate and consumer subscribers including: (1) charges for internet usage in excess of allocated free plan internet hours; (2) one-time installation and activation fees; and (3) fees for value-added services including e-mail and web hosting services;
- one-time fees generated from the reselling of internet-related solutions such as security solutions and domain registration;
- franchise and royalty fees for *Netopia* internet cafés, including a one-time subscription fee and monthly recurring franchise fees based on certain conditions in the franchise agreement;
- online gaming revenues from unique subscribers, including one-time sale of gaming cards and electronic pins, and top-up fees upon actual consumption of gaming credits or after expiration of any unused peso value thereof.

Revenues from our internet and online gaming businesses increased by Php125 million, or 22%, to Php686 million in the first nine months of 2007 from Php561 million in the same period in 2006 primarily due to the consolidation of Level Up! in May 2006 which resulted in an increase in revenues by Php27 million, and an increase in Infocom’s revenues by Php60 million. Our internet and online gaming business revenues accounted for 9% and 15% of total service revenues of our ICT business in the first nine months of 2007 and 2006, respectively.

Vitro™ data center

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

Vitro™ revenues consist of:

- monthly service fees derived from co-location services, server hosting, hardware and software maintenance services, website development and maintenance services, web hosting, data recovery security services and other value-added services; and
- installation charges or one-time fees associated with the set-up of services and professional services of Vitro's certified professionals.

In the first nine months of 2007, *Vitro*™ contributed revenues of Php311 million, an increase of Php24 million, or 8%, from Php287 million in the same period in 2006 primarily due to an increase in co-location revenues and server hosting. *Vitro*™ revenues accounted for 4% and 8% of service revenues of our ICT business in the first nine months of 2007 and 2006, respectively.

Others

Other revenues consist of fees generated from the issuance of digital certificates and licenses and revenues derived from IT helpdesk/contact center solutions and terminals for credit, debit and credit card transactions.

Revenues from other businesses related to our ICT segment decreased by Php17 million, or 19%, to Php73 million in the first nine months of 2007 from Php90 million in the same period in 2006.

Please refer to *Note 9 – Investments in Associates* to the accompanying unaudited consolidated financial statements for further discussion on ePLDT's investments.

Non-service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In the first nine months of 2007, non-service revenues generated by our ICT business decreased by Php139 million, or 41%, to Php200 million as compared to Php339 million in the same period in 2006 primarily due to lower revenues from sales of software licenses.

Other Income

All other income/gains which do not fall under service and non-service revenues are included under this classification. Other income generated from our ICT business increased by Php9 million, or 50%, to Php27 million in the first nine months of 2007 as compared to Php18 million in the same period in 2006 primarily due to *Vitro*'s collection of interest charges for overdue receivables from Stradcom Corporation.

Equity Share in Net Income of Associates

ePLDT's equity share in net income of associates amounted to Php1 million in the first nine months of 2006 due to ePLDT's share in the earnings of its unconsolidated investee companies.

Expenses

Expenses associated with our ICT business totaled Php7,709 million in the first nine months of 2007, an increase of Php3,581 million, or 87%, from Php4,128 million in the same period in 2006 primarily due to the consolidation of the SPi Group and Level Up! resulting to an increase in compensation and benefits, professional and other contracted services, and depreciation and amortization. As a percentage of our ICT revenues, expenses related to our ICT business were 101% and 100% for the first nine months of 2007 and 2006, respectively.

The following table shows the breakdown of our total ICT-related expenses for the nine months ended September 30, 2007 and 2006 and the percentage of each expense item to the total:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
ICT services:						
Compensation and benefits[1]	Php3,984	52	Php1,738	42	Php2,246	129
Professional and other contracted services	938	12	416	10	522	125
Depreciation and amortization	715	9	463	11	252	54
Rent	495	6	356	9	139	39
Maintenance	380	5	258	6	122	47
Communication, training and travel	365	5	170	4	195	115
Selling and promotions	194	3	205	5	(11)	(5)
Cost of sales	184	2	293	7	(109)	(37)
Amortization of intangible assets	162	2	19	1	143	753
Taxes and licenses	66	1	43	1	23	53
Insurance and security services	34	1	21	1	13	62
Provisions	15	–	(3)	–	18	600
Financing costs (gains)	(2)	–	54	1	(56)	(104)
Other expenses	179	2	95	2	84	88
Total	Php7,709	100	Php4,128	100	Php3,581	87

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

Compensation and benefits increased by Php2,246 million, or 129%, to Php3,984 million largely due to the increased number of employees and corresponding salaries and employee benefits resulting from the expansion of our call center business and the consolidation of the SPi Group and Level Up! in 2006.

Professional and other contracted services increased by Php522 million, or 125%, to Php938 million primarily due to higher consultancy fees and subcontracted services incurred by the SPi Group related to its BPO services.

Depreciation and amortization charges increased by Php252 million, or 54%, to Php715 million primarily due to an increase in the depreciable asset base in relation to the expansion of our call center business and the consolidation of the SPi Group in July 2006.

Rent expenses increased by Php139 million, or 39%, to Php495 million primarily due to higher office space rentals and leased circuits from other carriers incurred by our call center business, the SPi Group and Level Up!.

Maintenance expenses increased by Php122 million, or 47%, to Php380 million primarily due to higher maintenance costs for new call center facilities plus higher electricity charges for *Vitro*™ and the consolidation of the SPi Group and Level Up!.

Communication, training and travel expenses increased by Php195 million, or 115%, to Php365 million primarily due to the increased cost of phone lines, bandwidth and information system charges, coupled with the increase in local travel costs, mailing and courier charges and freight and hauling charges incurred by our call center and BPO businesses.

Selling and promotion expenses decreased by Php11 million, or 5%, to Php194 million mainly due to the SPi Group's lower advertising and marketing spending.

Cost of sales decreased by Php109 million, or 37%, to Php184 million primarily due to lower software and hardware sales.

Amortization of intangible assets increased by Php143 million to Php162 million in relation to the acquisition of the SPi Group and Level Up!. See *Note 11 – Goodwill and Intangible Assets* to the accompanying unaudited consolidated financial statements for further discussion.

Taxes and licenses increased by Php23 million, or 53%, to Php66 million primarily due to the consolidation of the SPi Group and higher business-related taxes.

Insurance and security services increased by Php13 million, or 62%, to Php34 million primarily due to higher premium costs and an increase in the value of assets insured.

Provisions increased by Php18 million, or 600%, to Php15 million mainly due to anticipated uncollectible accounts.

Financing gains amounted to Php2 million in the first nine months of 2007 primarily due to a gain on derivative transactions; no similar transaction was recorded in the same period in 2006. This was partially offset by higher accretion on financial liabilities particularly on interest expense on contingent consideration.

Other expenses increased by Php84 million, or 88%, to Php179 million mainly due to higher business-related costs, such as office supplies.

Benefit from Income Tax

Benefit from income tax amounted to Php73 million in the first nine months of 2007 primarily due to the corresponding deferred tax effect of the amortization of intangible assets in relation to the acquisition of the SPi Group and Level Up!, as compared to Php5 million in the same period in 2006.

Net Income

In the first nine months of 2007, our ICT business segment registered a net income of Php7 million as compared to Php23 million in the same period in 2006 mainly as a result of an 87% increase in ICT expenses mainly from the consolidation of the SPi Group, partly offset by the 84% increase in ICT-related revenues mainly from the consolidation of the SPi Group and increased contribution of our call center business.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the nine months ended September 30, 2007 and 2006 as well as our consolidated capitalization and other selected financial data as at September 30, 2007 and December 31, 2006:

	Nine Months Ended September 30,	
	2007	2006
	(Unaudited)	
(in millions)		
Cash Flows		
Net cash provided by operating activities	Php55,499	Php56,146
Net cash used in investing activities	19,557	25,261
Capital expenditures	*14,529*	*16,872*
Net cash used in financing activities	43,980	41,763
Net decrease in cash and cash equivalents	8,399	11,399

	September 30, 2007	December 31, 2006
(in millions)	(Unaudited)	(Audited)
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php57,273	Php63,769
Obligations under capital lease	26	106
Preferred stock subject to mandatory redemption	–	1,369
	57,299	65,244
Current portion of interest-bearing financial liabilities:		
Notes payable	487	201
Long-term debt maturing within one year	6,965	16,184
Obligations under capital lease maturing within one year	911	924
Preferred stock subject to mandatory redemption	1,114	–
	9,477	17,309
Total interest-bearing financial liabilities	66,776	82,553
Total equity	103,692	104,523
	Php170,468	Php187,076
Other Financial Data		
Total assets	Php227,971	Php241,892
Property, plant and equipment – net	159,288	164,190
Cash and cash equivalents	8,471	16,870

As at September 30, 2007, our consolidated cash and cash equivalents totaled Php8,471 million. Principal sources of consolidated cash and cash equivalents in the first nine months of 2007 were cash flows from operating activities amounting to Php55,499 million and drawings from Smart's, PLDT's and ePLDT's debt facilities aggregating Php5,429 million. These funds were used principally for dividend payments of Php28,394 million, capital outlays of Php14,529 million, total debt principal payments of Php16,294 million, interest payments of Php4,423 million and short-term investments of Php3,553 million.

Operating Activities

Our consolidated net cash flows from operating activities decreased by Php647 million, or 1%, to Php55,499 million in the first nine months of 2007 from Php56,146 million in the same period in 2006. A significant portion of our cash flow is generated by our wireless business, which contributed approximately 60% of our total revenues and other income in the first nine months of 2007 and 2006. Revenues from our fixed line and ICT services accounted for 33% and 7%, respectively, of our total revenues and other income in the first nine months of 2007 compared to 36% and 4%, respectively, in the same period in 2006.

Cash flows from operating activities of our wireless business amounted to Php34,502 million in the first nine months of 2007, an increase of Php4,620 million, or 15%, compared to Php29,882 million in the same period in 2006. The increase in our wireless business segment's cash flows from operating activities was primarily due to the decrease in our working capital requirements owing to the settlement of various payables in 2006. Likewise, cash flows from operating activities of our fixed line business increased to Php18,825 million due to lower working capital requirements in the first nine months of 2007, compared to Php15,476 million in the same period in 2006. We believe that our continuing strong cash flows from operating activities on a consolidated basis will allow us to defray our current liabilities despite our current ratio being less than 1:1 as at September 30, 2007.

Until April 2006, Smart was subject to loan covenants that restricted its ability to pay dividends, redeem preferred shares, make distributions to PLDT or otherwise provide funds to PLDT or any associate without the consent of its lenders. Smart was able to obtain waivers from Finnvera and certain of its lenders for all dividend payments made by Smart to PLDT up to March 2006. Dividend payments made by Smart to PLDT after April 2006 did not require prior creditor consent as all loan facilities that contain such restrictions have already been repaid. Cash dividends paid by Smart to PLDT for the nine months ended September 30, 2007 and 2006 amounted to Php26,927 million and Php20,600 million, respectively.

On September 17, 2007, Piltel paid cash dividends to various preferred shareholders in the aggregate amount of Php2,746 million, of which Php2,734 million was paid to PLDT.

Investing Activities

Net cash used in investing activities amounted to Php19,557 million in the first nine months of 2007, a decrease of Php5,704 million, or 23%, compared to Php25,261 million in the same period in 2006. This was primarily a net result of: (1) the increase in short-term investments by Php3,594 million in the first nine months of 2007 mainly due to Smart's increased investment in money market placements with over 90 days maturity; (2) a decrease in capital expenditures by Php2,343 million; and (3) lower investment acquisition by Php8,437 million. However, we expect capital expenditures to be higher in the last quarter of 2007.

Our consolidated capital expenditures in the first nine months of 2007 totaled Php14,529 million, a decrease of Php2,343 million, or 14%, from Php16,872 million in the same period in 2006 primarily due to Smart's and ePLDT's lower capital spending. Smart's capital spending of Php6,981 million in the first nine months of 2007 was used primarily to further upgrade its core, access and transmission network facilities, expand its wireless broadband facilities and develop IT platforms for new businesses. PLDT's capital spending of Php7,118 million was principally used to finance the expansion and upgrade of its submarine cable facilities, fixed line data and IP-based network services. ePLDT and its subsidiaries' capital spending of Php394 million was primarily used to fund its continued call center expansion. The balance represented other subsidiaries' capital spending. Consolidated capital expenditures in the first nine months of 2006 amounted to Php16,872 million, of which Php9,163 million, Php6,881 million and Php737 million were attributable to Smart, PLDT and ePLDT, respectively.

Financing Activities

On a consolidated basis, we used net cash of Php43,980 million for financing activities, net of loan drawings by Smart, in the first nine months of 2007, an increase of Php2,217 million, or 5%, compared to Php41,763 million in the same period in 2006. The net cash used in financing activities was mainly utilized for debt repayments, interest payments, and dividend payments distributed to PLDT common and preferred stockholders.

Debt Financing

Additions to our consolidated long-term debt in the first nine months of 2007 totaled Php5,429 million mainly from Smart's drawings related to the financing of its network expansion projects. Payments in respect of principal and interest of our total debt amounted to Php16,294 million and Php4,423 million, respectively, in the first nine months of 2007, of which Php11,343 million and Php3,256 million were attributable to PLDT, respectively.

The following table shows our long-term debt, including current portion, as at September 30, 2007 and December 31, 2006:

	September 30, 2007	December 31, 2006	Increase (Decrease)	
			Amount	%
	(Unaudited)	(Audited)		
(in millions)				
U.S. Dollar Debt:				
Export Credit Agencies-Supported Loans	Php9,321	Php14,981	(Php5,660)	(38)
Fixed Rate Notes	30,410	40,971	(10,561)	(26)
Term Loans	15,399	18,611	(3,212)	(17)
Satellite Acquisition Loans	1,342	2,083	(741)	(36)
	56,472	76,646	(20,174)	(26)
Philippine Peso Debt:				
Peso Fixed Rate Corporate Notes	4,988	808	4,180	517
Term Loans	2,778	2,499	279	11
	7,766	3,307	4,459	135
	Php64,238	Php79,953	(Php15,715)	(20)

For a complete discussion of our long-term debt, see *Note 17 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying unaudited consolidated financial statements.

Our long-term debt decreased by Php15,715 million, or 20%, to Php64,238 million as at September 30, 2007, largely due to debt amortizations and prepayments in line with our efforts to reduce overall debt level, and also due to the appreciation of the peso. The debt levels of Mabuhay, ePLDT, PLDT and Smart decreased by 36%, 35%, 27% and 2% to Php1,342 million, Php37 million, Php38,036 million and Php24,824 million, respectively, as at September 30, 2007.

On May 22, 2007, PLDT signed loan agreements with The Philippine American Life and General Insurance Company for Php400 million and The Philam Bond Fund, Inc. for Php20 million to refinance their respective participations in the Ten-Year Note under the Php1,270 million Peso Fixed Rate Corporate Notes which were repaid on June12, 2007. Both loans will mature on June 12, 2014.

On February 15, 2007 Smart issued Php5 billion unsecured fixed rate corporate notes, made up of Series A notes amounting to Php3.8 billion and Series B notes amounting to Php1.2 billion with five and ten year terms, respectively. Series A notes were priced at 5.625%, while Series B notes were priced at 6.500%. Funds raised from the issuance of these notes will be used primarily for Smart’s capital expenditures for network improvement and expansion.

On October 16, 2006, Smart signed a U.S. Dollar Term Loan Facility with Metropolitan Bank and Trust Company to finance the related Phase 9 GSM Facility for an amount of US$50 million. This loan facility was drawn in full on October 10, 2007. Please see *Note 17 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying unaudited consolidated financial statements for a detailed discussion of our long-term debt.

The scheduled maturities of our outstanding consolidated long-term debt at nominal values as at September 30, 2007 are as follows:

Year	**US$ Loans**		**Peso Loans**	**Total**
(Unaudited)	(in millions)			
2007[(1)]	US$40	Php1,803	Php139	Php1,942
2008	147	6,608	558	7,166
2009	263	11,830	570	12,400
2010	71	3,183	568	3,751
2011	15	668	568	1,236
2012 and onwards	830	37,335	5,384	42,719
	US$1,366	Php61,427	Php7,787	Php69,214

(1) October 1, 2007 through December 31, 2007.

Approximately Php26,495 million principal amount of our consolidated outstanding long-term debt as at September 30, 2007 is scheduled to mature over the period from 2007 to 2011. Of this amount, Php13,317 million was attributable to PLDT, Php11,800 million to Smart and the remainder to Mabuhay Satellite and ePLDT.

Debt Covenants

Our debt instruments contain restrictive covenants, including covenants that could prohibit us from paying dividends on common stock under certain circumstances, and require us to comply with specified financial ratios and other financial tests, calculated in conformity with Philippine Financial Reporting Standards, 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.

Please see *Note 17 – Interest-bearing Financial Liabilities – Debt Covenants* to the accompanying unaudited consolidated financial statements for a detailed discussion of our covenants.

Financing Requirements

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

As a result of our improving cash flows and reduced debt levels, we currently intend to gradually increase our dividend payout ratio as we improve our leverage ratios. For 2006, our dividend payout ratio was 60% of 2006 earnings per share, excluding the special dividend discussed below, which we intend to increase to 70% in 2007.

On August 7, 2007, we declared a special dividend of Php40 per share attributable to our 2006 earnings. This special dividend is an incremental dividend payout representing approximately 25% of our 2006 earnings per share. As a result of such special dividend declaration, our total dividend payments attributable to our 2006 earnings increased to Php140 per share, inclusive of the regular dividends paid out of our 2006 earnings aggregating Php100 per share.

The following table sets forth the dividend declaration, on PLDT's common stock pertaining to 2006 and 2007 earnings:

	Date			Amount	
Earnings	**Approved**	**Record**	**Payable**	**Per share**	**Total**
					(in millions)
2006	August 8, 2006	August 21, 2006	September 21, 2006	Php50	Php9,379
2006	March 6, 2007	March 20, 2007	April 20, 2007	50	9,429
2006	August 7, 2007	August 24, 2007	September 24, 2007	40	7,548
				Php140	Php26,356
2007	August 7, 2007	August 24, 2007	September 24, 2007	Php60	Php11,322

Credit Ratings

None of our existing indebtedness contains provisions under which credit rating downgrades would trigger a default, changes in applicable interest rates or other similar terms and conditions.

PLDT's current credit ratings are as follows:

Rating Agency	Credit Rating		Outlook
Moody's Investor Service, or Moody's	Foreign Currency Senior Unsecured Debt Rating	Ba2	Stable
	Local Currency Corporate Family Rating	Baa2	Stable
Fitch Ratings, or Fitch	Long-term Foreign Currency Rating	BB+	Stable
	Long-term Local Currency Rating	BB+	Stable
	Long-term Foreign Currency Issuer Default Rating, or IDR	BB+	Stable
	Long-term Local Currency Issuer Default Rating	BBB	Stable
	National Long-term Rating	AAA(ph1)	Stable

On August 14, 2007, Fitch upgraded PLDT's long-term local currency IDR to "BBB" from "BBB-" with a stable outlook and at the same time affirmed PLDT's long-term foreign currency IDR of "BB+" with a stable outlook, PLDT's global bonds and senior notes at "BB+". The rating action recognizes PLDT's sustained strengthening financial profile through 2006 and the first half of 2007, with a strong positive free cash flow generation enabling significant reductions in both gross and net debt levels. The upgrade also reflects our sustained strong operating performance and its pre-eminent position in the Philippine telecommunications sector.

On May 31, 2007, Moody's upgraded our local currency corporate family rating to Baa2 with a stable outlook from Baa3. At the same time, Moody's affirmed our foreign currency senior unsecured debt rating at Ba2 with a stable outlook. This rating action concluded the review for possible upgrade that Moody's commenced on April 11, 2007. The upgrade reflects the continued improvement in our financial profile and the consolidation of our strong operating performance.

Equity Financing

PLDT raised Php74 million and Php57 million from the exercise by certain officers and executives of stock options in the first nine months of 2007 and 2006, respectively.

Cash dividend payments in the first nine months of 2007 amounted to Php28,394 million compared to Php14,847 million paid to preferred and common shareholders in the same period in 2006. As at September 30, 2007, there were 189 million PLDT common shares outstanding compared to 188 million common shares outstanding as at September 30, 2006.

Contractual Obligations and Commercial Commitments

Contractual Obligations

The following table discloses our unaudited consolidated contractual obligations outstanding as at September 30, 2007:

	Payments Due by Period				
	Total	**Within 1 year**	**2–3 years**	**4–5 years**	**After 5 years**
			(Unaudited)		
(in millions)					
Long-term debt [1]	Php69,214	Php7,073	Php17,617	Php16,861	Php27,663
Long-term lease obligations:					
Operating lease	3,511	620	1,241	827	823
Capital lease	1,441	1,414	26	1	–
Unconditional purchase obligations[2]	796	71	45	242	438
Other long-term obligations	1,205	1,205	–	–	–
Total contractual obligations	Php76,167	Php10,383	Php18,929	Php17,931	Php28,924

(1) Before deducting unamortized debt discount and debt issuance costs.

(2) Based on the amended Air Time Purchase Agreement, or ATPA, with AIL.

Long-term Debt

For a discussion of our long-term debt, see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements.

Long-term Operating Lease Obligations

Digital Passage Service Contracts. PLDT has existing Digital Passage Service Contracts with foreign telecommunication administrations for several dedicated circuits to various destinations for 10 to 25 years expiring at various dates. As at September 30, 2007, PLDT's aggregate remaining obligation under these contracts amounted to approximately Php4 million.

License Agreement with Mobius Management Systems (Australia) Pty Ltd., or Mobius. PLDT entered into a license agreement with Mobius pursuant to which Mobius has granted PLDT a non-exclusive, non-assignable and non-transferable license for the use of computer software components. Under this agreement, Mobius is also required to provide maintenance services for a period of one year at no additional maintenance charge. PLDT may purchase maintenance services upon expiration of the first year for a fee of 15% of the current published license fee. As at September 30, 2007, PLDT's aggregate remaining obligation under this agreement was approximately Php20 million.

Other Long-term Operating Lease Obligations. The PLDT Group has various long-term lease contracts for periods ranging from two to ten years covering certain offices, warehouses, cell sites telecommunication equipment locations and various office equipment. In particular, Smart has lease obligations amounting to Php3,181 million as at September 30, 2007 in respect of office and cell site rentals with over 3,000 lessors nationwide, PLDT has lease obligations amounting to Php78 million as at September 30, 2007 in respect of office and lot rentals with over 175 lessors nationwide, ePLDT has lease obligations amounting to Php183 million as at September 30, 2007 in respect of certain office space rentals and PLDT Global has lease obligations amounting to Php45 million as at September 30, 2007 in respect of certain office space rentals.

*Long-term Capital Lease Obligation*s

For a discussion of our long-term capital lease obligations, see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements.

Unconditional Purchase Obligations

Air Time Purchase Agreement with AIL. PLDT was a party to a Founder National Service Provider, or NSP, ATPA, entered into with AIL in March 1997, which was amended in December 1998 (as amended, the “Original ATPA”), under which PLDT was granted the exclusive right to sell AIL services as NSP in the Philippines. In exchange, the Original ATPA required PLDT to purchase from AIL a minimum of US$5 million worth of air time (the “Minimum Air Time Purchase Obligation”) annually over ten years commencing January 1, 2002 (the “Minimum Purchase Period”), the purported date of commercial operations of Garuda I Satellite. In the event that AIL’s aggregate billed revenue is less than US$45 million in any given year, the Original ATPA also required PLDT has to make supplemental air time purchase payments not to exceed US$15 million per year during the Minimum Purchase Period (the “Supplemental Air Time Purchase Obligation”).

After lengthy negotiations including a collaboration arrangement with Inmarsat, AIL and ACeS signed a term sheet (“Banks’ Term Sheet”) in September 2006 (as amended in October 2006, November 2006 and February 2007) with the majority of AIL’s bank creditors. The Banks’ Term Sheet was used as the basis for negotiations amongst the parties to amend the Amended Credit Agreement. Under the Banks’ Term Sheet, a majority of the banks agreed, subject to the satisfaction of certain conditions, among other things to amend the Original ATPA as set forth in an attachment to the Banks Terms Sheet and to restructure AIL’s indebtedness. For further discussion please see *Note 20 – Related Party Transactions* to the accompanying unaudited consolidated financial statements.

As at September 30, 2007, PLDT’s aggregate remaining minimum obligation under the amended ATPA was approximately Php796 million.

Other Long-term Obligations

Mandatory Conversion and Purchase of Shares. As discussed in *Note 17 – Interest-bearing Financial Liabilities,* as at September 30, 2007, PLDT had issued a total of 3 million shares of Series V Convertible Preferred Stock, 5 million shares of Series VI Convertible Preferred Stock and 4 million shares of Series VII Convertible Preferred Stock in exchange for a total of 58 million shares of Series K Class I Convertible Preferred Stock of Piltel, pursuant to the debt restructuring plan of Piltel adopted in June 2001. As at September 30, 2007, 2,687,490 shares of Series V Convertible Preferred Stock, 4,588,860 shares of Series VI Convertible Preferred Stock and 3,842,000 shares of Series VII Convertible Preferred Stock had been voluntarily converted to PLDT common shares. As at September

30, 2007, 33,950 shares of Series V and 706,244 shares of Series VI Convertible Preferred Stocks remained outstanding.

Each share of Series V and VI Convertible Preferred Stocks is convertible at any time at the option of the holder into one PLDT common share. On the date immediately following the seventh anniversary of the issue date of the Series V and Series VI Convertible Preferred Stocks, the remaining outstanding shares under these series will be mandatorily converted to PLDT common shares. Under a put option exercisable for 30 days, holders of common shares received on mandatory conversion of the Series V and VI Convertible Preferred Stocks will be able to require PLDT to purchase such PLDT common shares for Php1,700 per share and US$36.132 per share, respectively.

The aggregate value of the put option based on outstanding shares as at September 30, 2007 was Php1,205 million which is puttable on June 4, 2008, if all of the outstanding shares of Series V and VI Convertible Preferred Stocks were mandatorily converted and all the common shares were put to PLDT at that time. The market value of the underlying common shares was Php2,154 million, based on the market price of PLDT common shares of Php2,910 per share as at September 30, 2007.

Please refer to *Note 17 – Interest-bearing Financial Liabilities – Preferred Stock Subject to Mandatory Redemption* to the accompanying unaudited consolidated financial statements for further discussion.

Commercial Commitments

As at September 30, 2007, our outstanding commercial commitments, in the form of letters of credit, amounted to Php1,846 million. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

Liquidity Risk Management

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

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

Foreign Exchange Risk Management

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

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

As at September 30, 2007, approximately 89% of our total consolidated debts was denominated in U.S. dollars. Consolidated foreign currency-denominated debt was reduced to Php56,472 million from Php81,850 million as at September 30, 2006. PLDT's outstanding long-term principal only currency swap contracts and foreign currency option contracts amounted to US$550 million and US$136 million, respectively, as at September 30, 2007. Consequently, the unhedged portion of consolidated debts amounts is approximately 45% or 38%, net of our U.S. dollar cash balances as at September 30, 2007.

For the nine months ended September 30, 2007, approximately 38% of our consolidated revenues are either denominated in U.S. dollars or are linked to the U.S. dollars. In this respect, the recent appreciation of the peso against the U.S. dollar reduced our revenues, and consequently, our cash flow from operations in peso terms.

The Philippine peso had appreciated by 8% against the U.S. dollar to Php44.974 to US$1.00 as at September 30, 2007, from Php49.045 to US$1.00 as at December 31, 2006. Likewise, as at September 30, 2006, the peso had appreciated by 5% to Php50.249 to US$1.00 from Php53.062 to US$1.00 as at December 31, 2005. As a result of the foreign exchange movements as well as the amount of our outstanding foreign currency debts and hedges, we recognized foreign exchange gains of Php1,662 million and Php1,601 million in the first nine months of 2007 and 2006, respectively.

For further discussions of these contracts, see *Note 24 – Financial Assets and Liabilities – Derivative Financial Instruments* to the accompanying unaudited consolidated financial statements.

Interest Rate Risk Management

On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. As at September 30, 2007, PLDT's outstanding interest rate swap contracts amounted to US$31 million. For further discussions of these contracts, see *Note 24 – Financial Assets and Liabilities – Derivative Financial Instruments* to the accompanying unaudited consolidated financial statements.

We make use of hedging instruments and structures solely for reducing or managing financial risks associated with our liabilities and not for trading or speculative purposes.

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. In recent periods, we do not believe inflation has had a material impact on our operations. The average inflation rate in the Philippines in the first nine months of 2007 was 2.6%, compared to 6.8% in the same period in 2006.

PART II – OTHER INFORMATION

Sale and transfer of Piltel's Fixed Line Business to PLDT

On November 5, 2007, Piltel's Board of Directors approved the sale and transfer of Piltel's fixed line business to PLDT or any of its subsidiaries which provides fixed line service, subject to the execution of a definitive agreement and fulfillment of certain closing conditions including the procurement of the requisite regulatory approvals. The sale and transfer will allow Piltel to concentrate its resources on its wireless business. It will also bring together the PLDT Group's LEC businesses such that these LEC businesses can derive operating efficiencies while extending to Piltel's fixed line subscribers the opportunity to benefit from the upgrades being undertaken at PLDT. PLDT has been managing Piltel's fixed line business since July 2001 under a Facilities Management Agreement, or FMA

Consent Solicitation for the US$250 Million 11.375% Notes due 2012, and Consent Solicitation for the US$175 Million 10.5% Notes due 2009 and US$300 Million 8.35% Notes due 2017

On November 6, 2007, PLDT commenced a solicitation of consents from holders of its outstanding 11.375% Notes due 2012, or the 2012 Notes, to effect certain proposed amendments relating to the limitation on restricted payments and limitation on dividends and a solicitation of consents from holders of its outstanding 10.5% Notes due 2009, or the 2009 Notes, and 8.35% Notes due 2017, or the 2017 Notes, to effect certain proposed amendments relating to the limitation on dividends.

Specifically, the proposed amendments, once effective, would give PLDT greater flexibility to make certain restricted payments, amend limitations on PLDT paying dividends or distributions, and reduce PLDT's permitted leverage ratios pursuant to the terms of the notes.

PLDT's key financial indicators including revenues, profitability and operating cash flows have improved over time compared to when the notes were issued. PLDT is focused on maintaining its market leadership, investing in new growth areas to boost its core telecommunications business and diversifying its revenue sources. PLDT is also focused on pursuing an efficient capital structure by adjusting its dividend and distribution policy to maintain an optimal level of cash on its balance sheet. PLDT believes that the existing Limitation on Restricted Payments and the existing Limitation on Dividends, constrain its ability to pursue these objectives. To demonstrate its continued commitment to maintaining a prudent capital structure, PLDT will simultaneously tighten its debt capacity.

Incorporation of SPi Global Solutions Corporation, or SPi Global

On October 5, 2007, the Philippine SEC approved the incorporation of SPi Global, a wholly-owned subsidiary of ePLDT. SPi Global will be the holding company of the BPO voice and non-voice businesses of ePLDT.

Related Party Transactions

a. Air Time Purchase Agreement between PLDT and AIL and Related Agreements

For a more detailed discussion on the ATPA, see *"— Contractual Obligations and Commercial Commitments — Unconditional Purchase Obligations — Air Time Purchase Agreement with AIL"*.

b. Transactions with Major Stockholders, Directors and Officers

Transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT had a direct or indirect material interest, as at September 30, 2007 (unaudited) and December 31, 2006 (audited) and for the nine months ended September 30, 2007 and 2006 (unaudited) are as follows:

Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and DoCoMo – In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to DoCoMo pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and DoCoMo, the FP Parties, NTT Communications and DoCoMo entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to DoCoMo, including:

- certain contractual veto rights over a number of major decisions or transactions; and
- rights relating to the representation on the board of directors of PLDT and Smart, respectively, and any committees thereof.

Key provisions of the Cooperation Agreement pertain to, among other things, restrictions on the ownership of shares of PLDT by NTT Communications and DoCoMo, limitation on competition, business cooperation, additional rights of DoCoMo, change in control and termination. See *Note 20 – Related Party Transactions* to the accompanying unaudited consolidated financial statements for further details.

Integrated i-mode Services Package Agreement between DoCoMo and Smart – An Integrated i-mode Services Package Agreement was entered into by Smart and DoCoMo on February 15, 2006, under which DoCoMo agreed to grant Smart, on an exclusive basis within the territory of the Philippines for a period of five years, an integrated i-mode services package including a non-transferable license to use the licensed materials and the i-mode brand, as well as implementation support and assistance and post-commercial launch support from DoCoMo. Pursuant to this agreement, Smart is required to pay an initial license fee and running royalty fees based on the revenue arising from i-mode subscription fees and data traffic. Outstanding obligation under this agreement amounted to Php53 million as at December 31, 2006. Smart has no outstanding obligation under this agreement as at September 30, 2007.

Advisory Services Agreement between DoCoMo and PLDT — An Advisory Services Agreement was entered into by DoCoMo and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, DoCoMo will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, said agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement amounted to Php56 million and Php25 million for the nine months ended September 30, 2007 and 2006, respectively. Outstanding liability under this agreement amounted to Php18 million and Php32 million as at September 30, 2007 and December 31, 2006, respectively.

Other Agreements with NTT Communications and/or its Affiliates — Under certain agreements, (1) NTT Communications provides advisory services for various business areas of PLDT; (2) PLDT is licensed to market managed data and other services using NTT Communications' Arcstar brand; and (3) PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services. Total fees under these agreements totaled Php83 million and Php144 million for the nine months ended September 30, 2007 and 2006, respectively. PLDT's outstanding obligations under these agreements amounted to Php18 million as at September 30, 2007 and December 31, 2006.

Agreement between Smart and Asia Link B.V., or ALBV. Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group, for the latter's provision of technical support services and assistance in the operations and maintenance of cellular business for a period of five years, subject to renewal upon mutual agreement between the parties. The agreement provides for quarterly payments of technical service fees equivalent to 2% of the net revenues of Smart. In January 2004, the agreement was amended, reducing the technical service fees to be paid by Smart to ALBV to 1% of net revenues effective January 1, 2004. On February 18, 2004, Smart and ALBV entered into a renewal of the Technical Assistance Agreement extending the effectivity of the terms thereof to February 23, 2008. Furthermore, in view of the acquisition by Smart of ownership of 92.1% of the outstanding common stock of Piltel held by PLDT, the parties agreed to make the consolidated net revenues of Smart the basis for the computation of the 1% technical service fees payable by Smart to ALBV, effective January 1, 2005. Total service fees charged to operations under this agreement amounted to Php449 million and Php398 million for the nine months ended September 30, 2007 and 2006, respectively. As at September 30, 2007, Smart had advanced the payment of service fees to ALBV amounting to Php151 million. As at December 31, 2006, Smart had an outstanding liability to ALBV of Php128 million.

Smart also has an existing Services Agreement with ALBV for a period of 25 years starting January 1, 1999, which will automatically expire unless renewed by mutual agreement of both parties. Under the agreement, ALBV provides advice and assistance to Smart in sourcing capital equipment and negotiating with international suppliers, arranging international financing and other services therein consistent with and for the furtherance of the objectives of the services. Service agreement fees were paid for the whole 25-year period. Outstanding prepaid management fees as at September 30, 2007 and December 31, 2006 amounted to Php830 million and Php869 million, respectively. Financing service fee charged to operations amounted to Php38 million each for the nine months ended September 30, 2007 and 2006.

Agreements relating to insurance companies — Gotuaco del Rosario and Associates, or Gotuaco, acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. In addition, PLDT has an insurance policy with Malayan Insurance Co., Inc., or Malayan, wherein premiums are directly paid to Malayan. Total insurance expenses under these agreements amounted to Php168 million and Php189 million for the nine months ended September 30, 2007 and 2006, respectively. Two directors of PLDT have direct/indirect interests in or serve as a director/officer of Gotuaco and Malayan.

For a more detailed discussion of the related party transactions enumerated above, see *Note 20 – Related Party Transactions* to the accompanying unaudited consolidated financial statements.

ANNEX – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of unaudited consolidated trade receivables as at September 30, 2007:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(In Millions)		
I. Trade Receivables					
1. Retails subscribers	Php8,535	Php1,776	Php976	Php246	Php5,537
2. Foreign administrations	4,466	1,338	1,128	509	1,491
3. Corporate subscribers	7,443	767	981	490	5,205
4. Domestic carriers	1,858	444	98	98	1,218
5. Dealers and agents	2,348	1,694	94	148	412
Subtotal	Php24,650	Php6,019	Php3,277	Php1,491	Php13,863
II. Non-Trade Receivables	1,641				
Total	26,291				
Less: Allowance for doubtful accounts	16,046				
Total Receivables - net	**Php10,245**				

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the third quarter of 2007 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-FURIGAY
Vice President and Controller
(Principal Accounting Officer)