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, 2008

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

November 4, 2008

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, we submit herewith three (3) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited financial statements of the Company for the nine (9) months ended September 30, 2008.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

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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)

JUNE CHERYL A. CABAL-FURIGAY	816-8534
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

2,183,934 As at September 30, 2008	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, 2008

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	187,681,652 shares as at September 30, 2008

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

    Yes [X] No [ ]

12. Check whether the registrant

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

    Yes [X] No [ ]

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

    Yes [X] No [ ]

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PART I –– FINANCIAL INFORMATION

Item 1. Financial Statements

Our consolidated financial statements as at September 30, 2008 (unaudited) and December 31, 2007 (audited) and for the nine months ended September 30, 2008 and 2007 (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 (please see Note 2 – Summary of Significant Accounting Policies and Practices to the accompanying unaudited consolidated financial statements for a list of these subsidiaries, including a description of their respective principal business activities).

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and the related notes. Our unaudited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with Philippine Financial Reporting Standards, which differ in certain significant respects from International Financial Reporting Standards and 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 Php47.264 to US$1.00, the volume weighted average exchange rate at September 30, 2008 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, 2008 (Unaudited)	December 31, 2007 (Audited)	Increase (Decrease) Amount	%
Consolidated Balance Sheets				
Total assets	Php237,461	Php240,158	(Php2,697)	(1)
Property, plant and equipment – net	158,210	159,414	(1,204)	(1)
Cash and cash equivalents and short-term investments	27,207	30,862	(3,655)	(12)
Total equity	99,359	112,511	(13,152)	(12)
Notes payable and long-term debt	68,110	60,640	7,470	12
Net debt(1) to equity ratio	0.41x	0.26x	–	–

	Nine Months Ended September 30, 2008	2007(2) (Unaudited)	Increase (Decrease) Amount	%
Consolidated Statements of Income				
Revenues and other income	Php113,035	Php106,420	Php6,615	6
Expenses	71,681	66,262	5,419	8
Income before income tax	41,354	40,158	1,196	3
Net income attributable to equity holders of PLDT	26,179	26,622	(443)	(2)
Pre-tax income margin	37%	38%	–	–
Net income margin	24%	25%	–	–
Earnings per common share				
Basic	137.15	139.32	(2.17)	(2)
Diluted	137.14	138.89	(1.75)	(1)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	Php60,076	Php56,276	Php3,800	7
Net cash used in investing activities	6,991	19,557	(12,566)	(64)
Capital expenditures	*16,841*	*14,529*	*2,312*	*16*
Net cash used in financing activities	48,514	44,757	3,757	8
Operational Data				
Number of cellular subscribers	34,176,370	28,260,095	5,916,275	21
Number of fixed line subscribers	1,773,091	1,751,468	21,623	1
Number of broadband subscribers	876,176	501,250	374,926	75
Fixed Line	*388,015*	*229,534*	*158,481*	*69*
Wireless	*488,161*	*271,716*	*216,445*	*80*
Number of employees	29,650	28,951	699	2
Fixed Line	*7,813*	*8,057*	*(244)*	*(3)*
Wireless	*5,622*	*5,345*	*277*	*5*
Information and Communications Technology	*16,215*	*15,549*	*666*	*4*

Exchange Rates	Php per US$
September 30, 2008	Php47.264
December 31, 2007	41.411
September 30, 2007	44.974
December 31, 2006	49.045

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

(2) 2007 has been restated to reflect the change in revenue recognition policy for installation fees where we elected to defer and amortize our installation fees and corresponding costs over the expected average period of the customer relationship of our fixed line subscribers.

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 SBI, our wireless broadband provider; Wolfpac Mobile, Inc., or Wolfpac, our wireless content operator; Mabuhay Satellite Corporation, or Mabuhay Satellite and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator;

- *Fixed Line* — fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT's subsidiaries, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Maratel, Inc., Piltel (on June 4, 2008, PLDT acquired the fixed line assets of Piltel), PLDT Global Corporation, or PLDT Global, Smart-NTT Multimedia, Inc., and Bonifacio Communications Corporation, which together account for approximately 2% of our consolidated fixed line subscribers; and

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

We registered revenues and other income of Php113,035 million in the first nine months of 2008, an increase of Php6,615 million, or 6%, as compared with Php106,420 million in the same period in 2007 primarily due to an increase in our service revenues by Php4,937 million largely from our wireless business and a gain on derivative transactions of Php2,855 million from our fixed line business.

Expenses increased by Php5,419 million, or 8%, to Php71,681 million in the first nine months of 2008 from Php66,262 million in the same period in 2007, largely resulting from increases in foreign exchange losses, repairs and maintenance, selling and promotions expenses and taxes and licenses partly offset by lower net financing costs, compensation and employee benefits, cost of sales, and professional and other contracted services.

Net income attributable to equity holders of PLDT decreased by Php443 million, or 2%, to Php26,179 million in the first nine months of 2008 from Php26,622 million in the same period in 2007. The decrease is mainly attributable to the revaluation of our net foreign currency-denominated liabilities which resulted in foreign exchange losses of Php5,985 million in the first nine months of 2008 compared with a foreign exchange gain of Php1,662 million in the same period in 2007. Consequently, our basic and diluted earnings per common share decreased to Php137.15 and Php137.14 in the first nine months of 2008 from Php139.32 and Php138.89 in the same period in 2007, respectively.

Results of Operations

The table below shows the contribution by each of our business segments to our unaudited revenues and other income, expenses and net income for the nine months ended September 30, 2008 and 2007. Most of our revenues and other income 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, 2008									
Revenues and other income	Php71,364		Php41,480		Php7,907		(Php7,716)	Php113,035	
Expenses	38,552		32,817		7,955		(7,643)	71,681	
Income (loss) before income tax	32,812		8,663		(48)		(73)	41,354	
Net income (loss) for the period	21,473		5,388		(46)		(73)	26,742	
Net income (loss) attributable to equity holders of PLDT	20,875		5,385		(8)		(73)	26,179	
For the nine months ended September 30, 2007[1]									
Revenues and other income	68,683		36,951		7,610		(6,824)	106,420	
Expenses	34,615		30,795		7,676		(6,824)	66,262	
Income (loss) before income tax	34,068		6,156		(66)		–	40,158	
Net income for the period	22,947		4,114		7		–	27,068	
Net income attributable to equity holders of PLDT	22,465		4,111		46		–	26,622	
Increase (Decrease)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**Amount**	**%**
Revenues and other income	Php2,681	4	Php4,529	12	Php297	4	(Php892)	Php6,615	6
Expenses	3,937	11	2,022	7	279	4	(819)	5,419	8
Income (loss) before income tax	(1,256)	(4)	2,507	41	18	27	(73)	1,196	3
Net income (loss) for the period	(1,474)	(6)	1,274	31	(53)	(757)	(73)	(326)	(1)
Net income (loss) attributable to equity holders of PLDT	(1,590)	(7)	1,274	31	(54)	(117)	(73)	(443)	(2)

(1) 2007 has been restated to reflect the change in revenue recognition policy for installation fees where we elected to defer and amortize our installation fees and corresponding costs over the expected average period of the customer relationship of our fixed line subscribers.

Wireless

Total Revenues and Other Income

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

The following table summarizes our unaudited total revenues and other income from our wireless business for the nine months ended September 30, 2008 and 2007 by service segment:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2008	%	2007	%	Amount	%
	(in millions)					
Wireless Services:						
Service revenues						
Cellular	Php64,461	91	Php61,121	89	Php3,340	5
Wireless broadband, satellite and others	4,340	6	2,938	4	1,402	48
	68,801	97	64,059	93	4,742	7
Non-Service Revenues						
Sale of cellular handsets and SIM-packs	1,489	2	1,630	3	(141)	(9)
Interest income	976	1	860	1	116	13
Foreign exchange gains – net	–	–	1,416	2	(1,416)	100
Loss on derivative transactions – net	(158)	–	–	–	(158)	(100)
Others	256	–	718	1	(462)	(64)
Total Wireless Revenues and Other Income	Php71,364	100	Php68,683	100	Php2,681	4

Service Revenues

Our wireless service revenues increased by Php4,742 million, or 7%, to Php68,801 million in the first nine months of 2008 as compared with Php64,059 million in the same period in 2007, mainly as a result of the growth in the cellular and wireless broadband subscriber base. Short messaging service, or SMS, benefited from the larger subscriber base. Voice revenues also increased due to the growth in call volumes partially offset by the unfavorable effect of a lower average Philippine peso to the U.S. dollar exchange rate on our dollar-linked revenues. As a percentage of our total wireless revenues and other income, service revenues contributed 97% in the first nine months of 2008 as compared with 93% in the same period in 2007.

Cellular Service

Our cellular service revenues consist of: (i) 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 and retailers; (ii) monthly service fees from postpaid subscribers, including (a) toll charges for national and international long distance calls; (b) charges for calls and text messages in excess of allocated free local calls and text messages, respectively; and (c) charges for value-added services, net of related content provider costs; (iii) 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 services; and (iv) other charges, including those for reconnection and migration.

Our cellular service revenues in the first nine months of 2008 amounted to Php64,461 million, an increase of Php3,340 million, or 5%, from Php61,121 million in the same period in 2007. Cellular service revenues accounted for 94% of our wireless service revenues in the first nine months of 2008 as compared with 95% in the same period in 2007.

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

Smart and Piltel have focused on segmenting the market by offering sector-specific, value-driven packages for its prepaid subscribers. These include new varieties of our top-up service which provide a fixed number of messages with prescribed validity periods and call packages which allow a fixed number of minutes or calls of preset duration. Starting out as purely on-network (Smart-to-Smart) packages, Smart's top-up services now offer text message bundles available to all networks. Smart also continues to offer *Smart 258*, a registration-based service which offers unlimited on-network (Smart-to-Smart) text messaging in various load denominations with designated expiration periods. In addition, Smart has a roster of 3G services which 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 the unaudited key measures of our cellular business as at and for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,			
			Increase	
	2008	**2007**	**Amount**	**%**
	(in millions)			
Cellular service revenues	Php64,461	Php61,121	Php3,340	5
By service type	*62,700*	*59,517*	*3,183*	*5*
Prepaid	58,025	55,101	2,924	5
Postpaid	4,675	4,416	259	6
By component	*62,700*	*59,517*	*3,183*	*5*
Voice	27,302	26,858	444	2
Data	35,398	32,659	2,739	8
Others(1)	*1,761*	*1,604*	*157*	*10*

(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.*

	As at September 30,			
			Increase	
	2008	2007	Amount	%
Cellular subscriber base	34,176,370	28,260,095	5,916,275	21
Prepaid	33,810,530	27,921,504	5,889,026	21
Smart	*20,521,552*	*19,576,658*	*944,894*	*5*
Piltel	*13,288,978*	*8,344,846*	*4,944,132*	*59*
Postpaid	365,840	338,591	27,249	8

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2008	2007	Amount	%
Systemwide traffic volumes (in millions)				
Calls (in minutes)	4,973	4,690	283	6
Domestic – outbound	2,867	2,806	61	2
International	2,106	1,884	222	12
Inbound	*1,940*	*1,737*	*203*	*12*
Outbound	*166*	*147*	*19*	*13*
SMS count	184,515	168,949	15,566	9
Text messages	183,276	167,436	15,840	9
Domestic	183,054	167,242	15,812	9
Bucket-Priced	*163,946*	*147,760*	*16,186*	*11*
Standard	*19,108*	*19,482*	*(374)*	*(2)*
International	222	194	28	14
Value-Added Services	1,218	1,480	(262)	(18)
Financial Services	21	33	(12)	(36)

Revenues attributable to our cellular prepaid service amounted to Php58,025 million in the first nine months of 2008, a 5% increase over the Php55,101 million earned in the same period in 2007. Prepaid service revenues in the first nine months of 2008 and 2007 accounted for 93% of voice and data revenues. Revenues attributable to Smart's postpaid service amounted to Php4,675 million in the first nine months of 2008, a 6% increase over the Php4,416 million earned in the same period in 2007, and accounted for 7% of voice and data revenues in the first nine months of 2008 and 2007.

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 Php444 million, or 2%, to Php27,302 million in the first nine months of 2008 from Php26,858 million in the same period in 2007 primarily due to the growth in call volumes, partially offset by the unfavorable effect of a lower average Philippine peso to the U.S. dollar exchange rate on our dollar-linked revenues. Cellular voice services accounted for 42% of cellular service revenues in the first nine months of 2008 as compared with 44% in the same period in 2007.

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 Php2,739 million, or 8%, to Php35,398 million in the first nine months of 2008 from Php32,659 million in the same period in 2007. Cellular data services accounted for 55% of cellular service revenues in the first nine months of 2008 as compared with 53% in the same period in 2007.

The following table shows the breakdown of our unaudited cellular data revenues for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2008	**2007**	**Amount**	**%**
		(in millions)		
Text messaging				
Domestic	Php32,092	Php29,059	Php3,033	10
Bucket-Priced	*20,362*	*14,038*	*6,324*	*45*
Standard	*11,730*	*15,021*	*(3,291)*	*(22)*
International	1,433	1,383	50	4
	33,525	30,442	3,083	10
Value-added services				
Standard(1)	1,108	1,428	(320)	(22)
Rich Media(2)	390	254	136	54
Pasa Load	338	472	(134)	(28)
	1,836	2,154	(318)	(15)
Financial services				
Smart Money	34	60	(26)	(43)
Mobile Banking	3	3	–	–
	37	63	(26)	(41)
Total	Php35,398	Php32,659	Php2,739	8

(1) Includes standard services such as info-on-demand, ringtone and logo download, etc.
(2) Includes Multimedia Messaging System, internet browsing, General Packet Radio Service, or GPRS, etc.

Text messaging-related services contributed revenues of Php33,525 million in the first nine months of 2008, an increase of Php3,083 million, or 10%, compared with Php30,442 million in the same period in 2007, and accounted for 95% and 93% of the total cellular data revenues in the first nine months of 2008 and 2007, respectively. The increase in revenues from text messaging-related services resulted mainly from Smart's various bucket-priced text promotional offerings which more than offset the decline in our standard texting services. Text messaging revenues from the various bucket plans totaled Php20,362 million in the first nine months of 2008, an increase of Php6,324 million, or 45%, compared with Php14,038 million in the same period in 2007. On the other hand, standard text messaging revenues declined by Php3,291 million, or 22%, to Php11,730 million in the first nine months of 2008 compared with Php15,021 million in the same period in 2007.

Standard text messages totaled 19,108 million in the first nine months of 2008, a decrease of 374 million, or 2%, from 19,482 million in the same period in 2007 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in the first nine months of 2008 totaled 163,946 million, an increase of 16,186 million, or 11%, as compared with 147,760 million in the same period in 2007. The growth in bucket-priced text traffic relative to revenue growth is reflective of a shift from unlimited text packages to low-denominated text packages with a fixed number of SMS, resulting in improved yield per SMS and increased text revenues.

Value-added services, which contributed revenues of Php1,836 million in the first nine months of 2008, decreased by Php318 million, or 15%, from Php2,154 million in the same period in 2007 primarily due to lower usage of standard services and *Pasa Load* owing to the introduction of low-denomination top-ups, partially offset by higher usage of rich media services in the first nine months of 2008 as compared with the same period in 2007.

Subscriber Base, ARPU and Churn Rates

In the first nine months of 2008, Smart and Piltel cellular subscribers totaled 34,176,370, an increase of 5,916,275, or 21%, over their combined cellular subscriber base of 28,260,095 in the same period in 2007. Our cellular prepaid subscriber base grew by 21% to 33,810,530 in the first nine months of 2008 from 27,921,504 in the same period in 2007, while our postpaid subscriber base increased by 8% to 365,840 in the first nine months of 2008 from 338,591 in the same period in 2007. Prepaid and postpaid subscribers accounted for 99% and 1%, respectively, of our total subscriber base in the first nine months of 2008 and 2007. Prepaid and postpaid subscribers reflected net activations of 4,111,380 and 23,960, respectively, in the first nine months of 2008.

Our net subscriber activations for the nine months ended September 30, 2008 and 2007 were as follows:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2008	2007	Amount	%
		(Unaudited)		
Prepaid	4,111,380	4,064,683	46,697	1
Smart	524,228	2,694,216	(2,169,988)	(81)
Piltel	3,587,152	1,370,467	2,216,685	162
Postpaid	23,960	20,028	3,932	20
Total	4,135,340	4,084,711	50,629	1

The following table summarizes our cellular ARPUs for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,							
	Gross		Decrease		Net		Increase (Decrease)	
	2008	2007	Amount	%	2008	2007	Amount	%
Prepaid								
Smart	Php290	Php314	(Php24)	(8)	Php228	Php257	(Php29)	(11)
Piltel	195	222	(27)	(12)	157	186	(29)	(16)
Prepaid – Blended	255	287	(32)	(11)	202	236	(34)	(14)
Postpaid – Smart	2,075	2,086	(11)	(1)	1,495	1,491	4	–
Prepaid and Postpaid Blended	275	309	(34)	(11)	216	252	(36)	(14)

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 gross monthly ARPU in the first nine months of 2008 was Php255, a decrease of 11%, compared with Php287 in the same period in 2007. The average outbound domestic voice, text messaging, value-added services and inbound revenue per subscriber declined in the first nine months of 2008 compared with the same period in 2007. On a net basis, prepaid blended monthly ARPU in the first nine months of 2008 was Php202, a decrease of 14%, compared with Php236 in the same period in 2007.

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 decreased by 1% to Php2,075 while net monthly ARPU increased to Php1,495 in the first nine months of 2008 as compared with Php2,086 and Php1,491 in the same period in 2007, respectively. Prepaid and postpaid monthly gross blended ARPU was Php275 in the first nine months of 2008, a decrease of 11%, compared with Php309 in the same period in 2007. Monthly net blended ARPU decreased by 14% to Php216 in the first nine months of 2008 as compared with Php252 in the same period in 2007.

Our quarterly prepaid and postpaid ARPUs for the nine months ended September 30, 2008 and 2007 were as follows:

	Prepaid				**Postpaid**	
	Smart		**Piltel**		**Smart**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
2008						
First Quarter	Php292	Php230	Php207	Php163	Php2,013	Php1,472
Second Quarter	294	232	199	159	2,134	1,510
Third Quarter	285	223	178	148	2,078	1,505
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
Fourth Quarter	307	244	216	177	2,105	1,467

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, which is equivalent to Php1 plus 50 free SMS for *Smart Buddy* and 25 free SMS for *Talk 'N Text*, 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 2008 and 2007 were 4.6% and 3.1%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers in the first nine months of 2008 and 2007 were 4.7% and 3.5%, respectively.

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

Wireless Broadband, Satellite and Other Services

Our revenues from wireless broadband, satellite and other services consist mainly of wireless broadband service revenues from SBI, rentals received for the lease of Mabuhay Satellite's transponders, charges for ACeS Philippines' satellite information and messaging services and service revenues generated from PLDT Global's subsidiaries. Gross revenues from these services for the first nine months of 2008 amounted to Php4,340 million, an increase of Php1,402 million, or 48%, from Php2,938 million in the same period in 2007 principally due to the growth in our wireless broadband business partially offset by lower satellite transponder rental revenues owing to lower rental charges and number of transponders being leased out, and the peso appreciation in 2007.

SBI offers a number of wireless broadband services and had 472,576 subscribers in the first nine months of 2008 as compared with 259,477 in the same period in 2007. *SmartBro*, SBI's fixed wireless broadband service 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 Php3,095 million in the first nine months of 2008, increasing by Php1,498 million, or 94%, from Php1,597 million in the same period in 2007.

On November 22, 2007, we introduced *SmartBro Plug-It* which offers instant internet access, through the use of a wireless modem, in places where there is Smart network coverage. Subscribers to this plan simply have to plug the data modem in order to access the internet with speeds ranging from 384 to 512 kbps. The monthly service fee of Php799 includes 40 hours per month of internet usage. A one-time charge for the modem costs Php1,200. On April 13, 2008, we launched the *SmartBro Plug-It Prepaid* which offers 30-minute internet access for every Php10 worth of load.

We also offer *PLDT WeRoam*, a wireless broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE and WiFi technologies). Principally targeted at the corporate market, this service had 15,585 subscribers in the first nine months of 2008 compared with 12,239 subscribers in the same period in 2007 and contributed Php145 million to our data revenues, increasing by Php53 million, or 58%, from Php92 million.

Non-service Revenues

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

Our wireless non-service revenues decreased by Php141 million, or 9%, to Php1,489 million in the first nine months of 2008 as compared with Php1,630 million in the same period in 2007 primarily due to lower average revenue per SIM-pack and a lower quantity of phonekits sold, partly offset by a higher volume of SIM-packs and broadband data modems sold in the first nine months of 2008.

Interest Income

Our wireless interest income increased by Php116 million, or 13%, to Php976 million in the first nine months of 2008 as compared with Php860 million in the same period in 2007 primarily due to a higher average interest rate and higher level of investments in the first nine months of 2008.

Loss on Derivative Transactions – net

Net loss on derivative transactions of Php158 million in the first nine months of 2008 relates to the loss in the mark-to-market valuation of forward contracts and embedded derivatives on service and purchase contracts.

Others

All other income/gains such as rental income, gains on disposal of property are included under this classification. Our wireless business segment generated other income of Php256 million in the first nine months of 2008, a decrease of Php462 million, or 64%, as compared with Php718 million in the same period in 2007 primarily due to a favorable prior period tax adjustment recorded by Smart in 2007.

Expenses

Expenses associated with our wireless business in the first nine months of 2008 amounted to Php38,552 million, an increase of Php3,937 million, or 11%, from Php34,615 million in the same period in 2007. A significant portion of this increase was attributable to foreign exchange losses, repairs and maintenance, rent, taxes and licenses, professional and other contracted services, selling and promotions expenses and depreciation and amortization, partially offset by lower cost of sales and net financing costs. As a percentage of our total wireless revenues and other income, expenses associated with our wireless business accounted for 54% and 50% in the first nine months of 2008 and 2007, respectively.

Cellular business expenses accounted for 93% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 7% of our wireless business expenses in the first nine months of 2008 compared with 92% and 8%, respectively, in the same period in 2007.

The following table summarizes the breakdown of our unaudited total wireless-related expenses for the nine months ended September 30, 2008 and 2007 and the percentage of each expense item to the total:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2008	%	2007	%	Amount	%
			(in millions)			
Wireless Services:						
Depreciation and amortization	Php9,033	23	Php8,907	26	Php126	1
Rent	6,844	18	6,274	18	570	9
Compensation and employee benefits[(1)]	3,820	10	3,730	11	90	2
Repairs and maintenance	3,255	9	2,635	7	620	24
Cost of sales	3,149	8	3,443	10	(294)	(9)
Selling and promotions	3,067	8	2,836	8	231	8
Foreign exchanges losses – net	1,942	5	–	–	1,942	100
Professional and other contracted services	1,892	5	1,632	5	260	16
Financing costs – net	1,547	4	1,797	5	(250)	(14)
Taxes and licenses	1,424	4	922	3	502	54
Communication, training and travel	801	2	773	2	28	4
Insurance and security services	532	1	564	2	(32)	(6)
Asset impairment	349	1	272	1	77	28
Amortization of intangible assets	99	–	124	–	(25)	(20)
Equity share in net losses of associates	79	–	–	–	79	100
Gain on derivative transactions – net	–	–	(48)	–	48	100
Other expenses	719	2	754	2	(35)	(5)
Total	Php38,552	100	Php34,615	100	Php3,937	11

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

Depreciation and amortization charges increased by Php126 million, or 1%, to Php9,033 million in the first nine months of 2008 principally due to an increase in our depreciable asset base mainly 3G and broadband networks, and broadband customer-deployed equipment.

Rent expenses increased by Php570 million, or 9%, to Php6,844 million on account of an increase in DFON facilities and transmission circuits leased by Smart from PLDT, as well as higher site and office rental expenses. In the first nine months of 2008, we had 5,256 GSM cell sites and 7,633 base stations, compared with 4,817 GSM cell sites and 7,401 base stations in the same period in 2007.

Compensation and employee benefits expenses increased by Php90 million, or 2%, to Php3,820 million primarily due to higher accrued bonuses and employees' basic pay increase of Smart partly offset by lower LTIP costs as a result of a price decrease in PLDT shares. Smart and subsidiaries' employee headcount increased by 272 to 5,566 in the first nine months of 2008 as compared with 5,294 in the same period in 2007. For further discussion on our LTIP, please see *Note 23 – Share-based Payments and Employee Benefits* to the accompanying unaudited consolidated financial statements.

Repairs and maintenance expenses increased by Php620 million, or 24%, to Php3,255 million mainly due to an increase in network and software repairs and maintenance costs, as well as an increase in electricity consumption and fuel costs for power generation.

Cost of sales decreased by Php294 million, or 9%, to Php3,149 million due to a lower average cost of cellular phonekits and SIM-packs, and a lower quantity of phonekits sold, partly offset by a higher quantity of SIM-packs and broadband data modems sold in the first nine months of 2008.

Selling and promotion expenses increased by Php231 million, or 8%, to Php3,067 million due to higher advertising, promotion and commission expenses, partly offset by decreases in public relations expense and printing cost of prepaid cards with the prevalence of e-Loading.

Net foreign exchange losses amounted to Php1,942 million in the first nine months of 2008 primarily due to a loss on revaluation of net foreign currency-denominated liabilities owing to the depreciation of the Philippine peso.

Professional and other contracted services increased by Php260 million, or 16%, to Php1,892 million primarily due to higher expenses for call center, outsourced, technical and consultancy services. Please see *Note 22 – Related Party Transactions* to the accompanying unaudited consolidated financial statements for further discussion.

Net financing costs decreased by Php250 million, or 14%, to Php1,547 million on account of lower accretion on financial liabilities, interest on loans and related items, lower financing charges and higher capitalized interest.

Taxes and licenses increased by Php502 million, or 54%, to Php1,424 million primarily due to network expansion, the imposition of new licenses and fees on telecommunications entities, and non-creditable input tax.

Communication, training and travel expenses increased by Php28 million, or 4%, to Php801 million primarily due to higher mailing, communication and fuel expenses incurred in the first nine months of 2008.

Insurance and security services decreased by Php32 million, or 6%, to Php532 million primarily due to lower insurance and bond premiums.

Asset impairment increased by Php77 million, or 28%, to Php349 million mainly due to higher provisions for doubtful accounts and inventory obsolescence in the first nine months of 2008.

Amortization of intangible assets decreased by Php25 million, or 20%, to Php99 million mainly due to intangible assets relating to customer list arising from the acquisition of SBI which was fully amortized by August 2007.

Equity share in net losses of associates amounted to Php79 million in the first nine months of 2008 primarily due to share in net losses in an unconsolidated investee company.

Other expenses decreased by Php35 million, or 5%, to Php719 million primarily due to lower various business and operational-related expenses.

Provision for Income Tax

Provision for income tax increased by Php218 million, or 2%, to Php11,339 million in the first nine months of 2008 from Php11,121 million in the same period in 2007. In the first nine months of 2008, the effective tax rate for our wireless business was 35% as compared with 33% in the same period in 2007 mainly due to higher non-deductible expenses and derecognition of deferred income tax assets by ACeS Philippines in the first nine months of 2008.

Net Income

Our wireless business segment recorded a net income of Php21,473 million in the first nine months of 2008, a decrease of Php1,474 million, or 6%, over Php22,947 million registered in the same period in 2007 on account of an 11% increase in wireless-related expenses and higher provision for income tax, partially offset by a 7% increase in wireless service revenues.

Fixed Line

Total Revenues and Other Income

Revenues and other income generated from our fixed line business in the first nine months of 2008 totaled Php41,480 million, an increase of Php4,529 million, or 12%, from Php36,951 million in the same period in 2007.

The following table summarizes the unaudited revenues and other income of our fixed line business for the nine months ended September 30, 2008 and 2007 by service segment:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2008	%	2007	%	Amount	%
			(in millions)			
Fixed line services:						
Service revenues						
Local exchange	Php11,876	29	Php12,067	33	(Php191)	(2)
International long distance	5,437	13	6,685	18	(1,248)	(19)
National long distance	4,750	11	4,864	13	(114)	(2)
Data and other network	13,627	33	11,180	30	2,447	22
Miscellaneous	1,017	2	1,046	3	(29)	(3)
	36,707	88	35,842	97	865	2
Non-service revenues						
Sale of computers	241	1	119	–	122	103
Gain on derivative transactions – net	3,059	7	–	–	3,059	100
Interest income	322	1	238	1	84	35
Foreign exchange gains – net	–	–	293	1	(293)	(100)
Others	1,151	3	459	1	692	151
Total Fixed Line Revenues and Other Income	Php41,480	100	Php36,951	100	Php4,529	12

Service Revenues

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php865 million, or 2%, to Php36,707 million in the first nine months of 2008 from Php35,842 million in the same period in 2007 primarily due to an increase in our data and other network service as a result of higher revenues contributed by our DSL and Diginet services, partially offset by the decrease in our international long distance, local exchange service, national long distance and miscellaneous services.

Local Exchange Service

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

The following table summarizes the unaudited key measures of our local exchange service business as at and for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2008	2007	Amount	%
Total local exchange service revenues (in millions)	Php11,876	Php12,067	(Php191)	(2)
Number of fixed line subscribers	1,773,091	1,751,468	21,623	1
Postpaid	1,510,739	1,454,678	56,061	4
Prepaid	262,352	296,790	(34,438)	(12)
Number of fixed line employees	7,813	8,057	(244)	(3)
Number of fixed line subscribers per employee	227	217	10	5

Revenues from our local exchange service decreased by Php191 million, or 2%, to Php11,876 million in the first nine months of 2008 from Php12,067 million in the same period in 2007 primarily owing to a decrease in average revenue per user on account of lower fixed charges due to bundling of services, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of PLDT Landline Plus, higher bundled voice and data services and higher service connection charges. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 32% in the first nine months of 2008 as compared with 34% in the same period in 2007.

Initially intended as an affordable alternative telephone service for consumers under difficult economic conditions, our prepaid fixed line services now form an important part of our overall churn and credit risk exposure management strategy. PLDT has consolidated its prepaid fixed line service into *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.

In March 2007, PLDT launched the PLDT Landline Plus, a postpaid fixed wireless service where subscribers to the service benefit from a text-capable home phone. The monthly service fee is at Php600 with 600 local minutes free and Php1,000 with 1,000 local minutes free for residential and business subscribers, respectively. In March 2008, we introduced the prepaid counterpart of the PLDT Landline Plus. As at September 30, 2008, there were a total of 132,391 active PLDT Landline Plus subscribers, of which 65,168 and 67,223 were postpaid and prepaid subscribers, respectively.

International Long Distance Service

Our international long distance service revenues, which we generate through our international gateway facilities, consist of (i) 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; (ii) access charges paid to us by other Philippine telecommunications carriers for terminating inbound international calls to our local exchange network; and (iii) 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 our unaudited fixed line international long distance revenues and call volumes for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,			
			Decrease	
	2008	**2007**	**Amount**	**%**
Total international long distance service revenues (in millions)	Php5,437	Php6,685	(Php1,248)	(19)
Inbound	4,392	5,506	(1,114)	(20)
Outbound	1,045	1,179	(134)	(11)
International call volumes (in million minutes, except call ratio)	1,495	1,702	(207)	(12)
Inbound	1,314	1,493	(179)	(12)
Outbound	181	209	(28)	(13)
Inbound-outbound call ratio	7.3:1	7.1:1	–	–

Our total international long distance service revenues decreased by Php1,248 million, or 19%, to Php5,437 million in the first nine months of 2008 from Php6,685 million in the same period in 2007 primarily due to the average appreciation of the Philippine peso, a decrease in average termination rates for inbound calls and a decrease in inbound and outbound call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 15% in the first nine months of 2008 from 19% in the same period in 2007.

Our revenues from inbound international long distance service decreased by Php1,114 million, or 20%, to Php4,392 million from Php5,506 million in the same period in 2007 due to a decline in inbound traffic volume by 179 million minutes to 1,314 million minutes in the first nine months of 2008, as well as the appreciation of the average Philippine peso to the U.S. dollar exchange rate coupled with a decrease in average termination rate per minute due to the change in call mix with more traffic terminating to cellular operators where the net revenue retained by us is lower. The appreciation of the Philippine peso to the U.S. dollar average exchange rates of Php42.60 in the first nine months of 2008 and Php47.53 in the same period in 2007 contributed to the decrease in our inbound international long distance revenues in peso terms, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php134 million, or 11%, to Php1,045 million in the first nine months of 2008 from Php1,179 million in the same period in 2007 primarily due to a decline in outbound international call volumes, a decrease 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 appreciation of the Philippine peso.

National Long Distance Service

Our national long distance service revenues consist of: (i) 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; (ii) access charges received from other telecommunications carriers for calls carried through our backbone network and/or terminating to our customers; and (iii) 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 unaudited national long distance service revenues and call volumes for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,			
			Decrease	
	2008	2007	Amount	%
Total national long distance service revenues (in millions)	Php4,750	Php4,864	(Php114)	(2)
National long distance call volumes (in million minutes)	1,497	1,652	(155)	(9)

Our national long distance service revenues decreased by Php114 million, or 2%, to Php4,750 million in the first nine months of 2008 from Php4,864 million in the same period in 2007 primarily due to a decrease in call volumes. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 13% and 14% in the first nine months of 2008 and 2007, respectively.

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 unaudited data and other network service revenues for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2008	2007	Amount	%
Data and other network service revenues (in millions)	Php13,627	Php11,180	Php2,447	22
Number of *DSL* broadband subscribers	388,015	229,534	158,481	69
Number of *PLDT Vibe* narrowband subscribers	129,872	268,984	(139,112)	(52)

In the first nine months of 2008, our data and other network services posted revenues of Php13,627 million, an increase of Php2,447 million, or 22%, from Php11,180 million in the same period in 2007 primarily due to increases in leased lines, IP-based and packet-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 37% in the first nine months of 2008 from 31% in the same period in 2007.

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

DSL contributed revenues of Php3,890 million in the first nine months of 2008, an increase of Php1,126 million, or 41%, from Php2,764 million in the same period in 2007 primarily due to an increase in the number of subscribers, which was partially offset by lower ARPU as a result of launching of lower plans as part of promotions. DSL subscribers increased by 69% to 388,015 in the first nine months of 2008 compared with 229,534 subscribers in the same period in 2007.

PLDT Vibe revenues decreased by Php94 million, or 46%, to Php112 million in the first nine months of 2008 from Php206 million in the same period in 2007 primarily due to lower number of plan subscribers as well as the declining usage of *Vibe* prepaid. *PLDT Vibe* subscribers decreased by 52% to 129,872 in the first nine months of 2008 from 268,984 in the same period in 2007. The declining number of *Vibe* plans and regular monthly users for *Vibe* prepaid may be attributed to the migration from *Vibe* dial-up to DSL which is now priced more competitively.

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

Diginet, our domestic private leased line service, has been providing Smart's increasing fiber optic and leased line data requirements. Diginet revenues increased by Php349 million, or 7%, to Php5,467 million in the first nine months of 2008 as compared with Php5,118 million in the same period in 2007 mainly due to Smart's DFON rental of Php4,269 million and Php3,833 million in the first nine months of 2008 and 2007, respectively.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. In the first nine months of 2008, these revenues decreased by Php29 million, or 3%, to Php1,017 million from Php1,046 million in the same period in 2007 mainly due to a decline in facilities management fees and rental income owing to lower 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 2008 and 2007.

Non-service Revenues

Non-service revenues increased by Php122 million, or 103%, to Php241 million in the first nine months of 2008 from Php119 million in the same period in 2007 primarily due to an increase in subscriptions for our DSL service that is bundled with computers and thus resulted in higher computer sales.

Gain on Derivative Transactions – net

We recognized a net gain on derivative transactions of Php3,059 million in the first nine months of 2008, of which Php2,363 million pertain to the gain on mark-to-market valuation of various financial instruments, and Php696 million pertain to the impact of the de-designation of foreign currency swaps and option contracts beginning January 1, 2008. The de-designation exposes our profit and loss accounts to the volatility of the financial instruments' fair valuation at certain periods. Please see *Note 26 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements for further discussion.

Interest Income

Interest income of our fixed line business segment increased by Php84 million, or 35%, to Php322 million in the first nine months of 2008 from Php238 million in the same period in 2007 primarily due to higher average interest rate on money market placements.

Others

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 2008, our fixed line business segment registered an increase in other income of Php692 million, or 151%, to Php1,151 million from Php459 million in the same period in 2007 largely due to gain on disposal of fixed assets.

Expenses

Expenses related to our fixed line business totaled Php32,817 million in the first nine months of 2008, an increase of Php2,022 million, or 7%, as compared with Php30,795 million in the same period in 2007. The increase was primarily due to higher foreign exchange losses, repairs and maintenance, professional and other contracted services, rent, selling and promotions and other overhead expenses, partially offset by loss on derivative transactions in 2007, lower compensation and employee benefits, net financing costs and depreciation and amortization.

The following table shows the breakdown of our unaudited fixed line-related expenses for the nine months ended September 30, 2008 and 2007 and the percentage of each expense item to the total:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2008	%	2007	%	Amount	%
			(in millions)			
Fixed line services:						
Depreciation and amortization	Php9,009	27	Php9,330	30	(Php321)	(3)
Compensation and employee benefits[(1)]	6,352	19	7,879	26	(1,527)	(19)
Foreign exchange losses – net	4,212	13	–	–	4,212	100
Repairs and maintenance	3,335	10	2,730	9	605	22
Financing costs – net	3,123	10	3,656	12	(533)	(15)
Professional and other contracted services	1,528	5	1,243	4	285	23
Rent	1,484	5	1,205	4	279	23
Selling and promotions	1,053	3	831	3	222	27
Asset impairment	660	2	829	3	(169)	(20)
Taxes and licenses	578	2	728	2	(150)	(21)
Communication, training and travel	448	1	319	1	129	40
Insurance and security services	388	1	330	1	58	18
Cost of sales	141	–	118	–	23	19
Loss on derivative transactions – net	–	–	1,261	4	(1,261)	(100)
Provisions	–	–	28	–	(28)	(100)
Other expenses	506	2	308	1	198	64
Total	Php32,817	100	Php30,795	100	Php2,022	7

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

Depreciation and amortization charges decreased by Php321 million, or 3%, to Php9,009 million in the first nine months of 2008 due to a lower depreciable asset base in the first nine months of 2008 compared with the same period in 2007.

Compensation and employee benefits expenses decreased by Php1,527 million, or 19%, to Php6,352 million primarily due to lower LTIP costs as a result of a decrease in PLDT's share price and a decrease in pension benefits based on lower salary increase assumption from the actuarial valuation. For further discussion on our LTIP, please see *Note 23 – Share-based Payments and Employee Benefits* to the accompanying unaudited consolidated financial statements.

Net foreign exchange losses amounted to Php4,212 million in the first nine months of 2008 primarily due to the loss on revaluation of net foreign currency-denominated liabilities as a result of the depreciation of the Philippine peso.

Repairs and maintenance expenses increased by Php605 million, or 22%, to Php3,335 million primarily due to higher maintenance costs of IT software and hardware and foreign cable and wire facilities as more operating and maintenance-related restorations were incurred in the first nine months of 2008 as compared with the same period in 2007.

Net financing costs decreased by Php533 million, or 15%, to Php3,123 million largely due to lower interest on loans and related items and amortization of debt issuance cost resulting from lower debt levels.

Professional and other contracted services increased by Php285 million, or 23%, to Php1,528 million primarily due to higher contracted fees for technical and advisory services.

Rent expenses increased by Php279 million, or 23%, to Php1,484 million due to the increase in pole rental charges and international leased circuit charges, partially offset by a decrease in transponder lease.

Selling and promotion expenses increased by Php222 million, or 27%, to Php1,053 million primarily due to higher marketing expenses as a result of more major advertising campaigns launched on the PLDT Landline Plus in the first nine months of 2008 as well as an increase in commission expenses.

Asset impairment decreased by Php169 million, or 20%, to Php660 million mainly due to lower impairment charge on uncollectible receivables as collection have improved in the first nine months of 2008.

Taxes and licenses decreased by Php150 million, or 21%, to Php578 million as a result of higher business-related taxes paid in the first nine months of 2007.

Communication, training and travel expenses increased by Php129 million, or 40%, to Php448 million due to the increase in subscriber-related mailing, courier and delivery charges, partially offset by a net decrease in foreign and local travel, and training expenses.

Insurance and security services increased by Php58 million, or 18%, to Php388 million primarily due to higher security expense, insurance and bond premiums.

Cost of sales increased by Php23 million, or 19%, to Php141 million due to higher computer-bundled sales in relation to our DSL promotion and *WeRoam* subscriptions.

Other expenses increased by Php198 million, or 64%, to Php506 million due to higher various business and operational-related expenses.

Provision for Income Tax

Provision for income tax amounted to Php3,275 million in the first nine months of 2008 as compared with Php2,042 million in the same period in 2007 primarily due to higher taxable income.

Net Income

In the first nine months of 2008, our fixed line business segment contributed a net income of Php5,388 million, an increase of Php1,274 million, or 31%, as compared with Php4,114 million in the same period in 2007 mainly as a result of a gain on derivative transactions of Php3,059 million.

Information and Communications Technology

Total Revenues and Other Income

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

In the first nine months of 2008, our ICT business generated revenues and other income of Php7,907 million, an increase of Php297 million, or 4%, from Php7,610 million in the same period in 2007. This increase was due to the continued growth of our customer interaction services.

The following table summarizes the unaudited total revenues and other income from our ICT business for the nine months ended September 30, 2008 and 2007 by service segment:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2008	%	2007	%	Amount	%
	(in millions)					
Service Revenues						
Knowledge processing solutions	Php3,890	49	Php3,989	52	(Php99)	(2)
Customer interaction services	2,494	31	2,357	31	137	6
Internet and online gaming	698	9	686	9	12	2
Vitro™ data center	519	7	384	5	135	35
	7,601	96	7,416	97	185	2
Non-service revenues						
Point-Product-Sales	272	3	200	3	72	36
Interest income	16	–	14	–	2	14
Foreign exchange losses – net	–	–	(47)	–	47	100
Equity share in net gains of associates	5	–	–	–	5	100
Loss on derivative transactions – net	(31)	–	–	–	(31)	(100)
Others	44	1	27	–	17	63
Total ICT Revenues and Other Income	Php7,907	100	Php7,610	100	Php297	4

Service Revenues

Service revenues generated by our ICT business segment amounted to Php7,601 million in the first nine months of 2008, an increase of Php185 million, or 2%, as compared with Php7,416 million in the same period in 2007 primarily as a result of the continued growth of our customer interaction services business complemented by an increase in co-location revenues and disaster recovery, partially offset by lower revenues from litigation and healthcare services of knowledge processing solutions in the first nine months of 2008.

Knowledge Processing Solutions

Knowledge processing solution revenues consist of: (i) editorial and content production services to the scholarly scientific, technical and medical (SSTM) journal publishing industry; (ii) digital content conversion services to information organizations; (iii) pre-press project management services to book publishers; (iv) litigation support services which involve conventional coding and electronic discovery support services for corporations, international law firms, corporate counsels and government agencies; (v) 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 (vi) revenue cycle management services for U.S. medical facilities.

We provide our knowledge processing solutions primarily through the SPi Group. Knowledge processing solutions contributed revenues of Php3,890 million in the first nine months of 2008, a decrease of Php99 million, or 2%, from Php3,989 million in the same period in 2007 primarily as a result of lower service revenues from litigation and healthcare services partially offset by the revenues contributed by Springfield. Knowledge processing solutions accounted for 51% and 54% of total service revenues of our ICT business in the first nine months of 2008 and 2007, respectively.

Customer Interaction Services

Customer interaction service revenues consist of: (i) handling of inbound calls for customer care, product inquiries, sales and technical support based on active minutes, billable hours and full-time equivalents; (ii) outbound calls for sales and collections based on active minutes, billable hours and full-time equivalents; and (iii) service income for e-mail handling, web chat, web co-browsing, data entry and knowledge processing solutions based on transaction volume.

We provide our customer interaction services primarily through *ePLDT Ventus*. Revenues relating to our customer interaction services business increased by Php137 million, or 6%, to Php2,494 million in the first nine months of 2008 from Php2,357 million in the same period in 2007 primarily due to the expansion of our facilities. In total, we own and operate approximately 6,450 seats with 5,370 customer service representatives, or CSRs, in the first nine months of 2008 compared with approximately 5,800 seats with 5,010 CSRs in the same period in 2007. In the first nine months of 2008 and 2007, we have seven customer interaction service sites. Customer interaction service revenues accounted for 33% and 32% of total service revenues of our ICT business in the first nine months of 2008 and 2007, respectively.

Internet and Online Gaming

Internet and online gaming service revenues consist of: (i) revenues derived from actual usage of the internet access network by prepaid subscribers; (ii) monthly service fees from postpaid corporate and consumer subscribers; (iii) one-time fees generated from the reselling of internet-related solutions such as security solutions and domain registration; (iv) franchise and royalty fees for *Netopia* internet cafés; (v) 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 Php12 million, or 2%, to Php698 million in the first nine months of 2008 from Php686 million in the same period in 2007 primarily due to the increase in Infocom's revenues from customer service outsourcing. Our internet and online gaming business revenues accounted for 9% of total service revenues of our ICT business in the first nine months of 2008 and 2007.

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: (i) 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; (ii) installation charges or one-time fees associated with the set-up of services and professional services of *Vitro*™'s certified professionals; and (iii) fees generated from the issuance of digital certificates and revenues derived from IT helpdesk/contact center solutions and terminals for credit, debit and credit card transactions.

In the first nine months of 2008, *Vitro*™ contributed revenues of Php519 million, an increase of Php135 million, or 35%, from Php384 million in the same period in 2007 primarily due to an increase in co-location revenues and server hosting. *Vitro*™ revenues accounted for 7% and 5% of service revenues of our ICT business in the first nine months of 2008 and 2007, respectively.

Non-service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In the first nine months of 2008, non-service revenues generated by our ICT business increased by Php72 million, or 36%, to Php272 million as compared with Php200 million in the same period in 2007 primarily due to higher revenues from sales of software and hardware licenses.

Interest Income

Interest income for our ICT business segment increased by Php2 million, or 14%, to Php16 million in the first nine months of 2008 from Php14 million in the same period in 2007 primarily due to a higher level of interest rates.

Equity share in net gains of associates

Equity share in net gains of associates amounted to Php5 million in the first nine months of 2008 primarily due to share in net income of unconsolidated investee companies.

Loss on Derivative Transactions – net

Net loss on derivative transactions of Php31 million in the first nine months of 2008 was primarily due to loss in the mark-to-market valuation recognized by our customer interaction service and knowledge processing solutions businesses on forward exchange contracts.

Others

Other income generated from our ICT business increased by Php17 million, or 63%, to Php44 million in the first nine months of 2008 as compared with Php27 million in the same period in 2007 primarily due to the recognition of income on ePLDT's investment in convertible securities of Stradcom International Holdings, Inc., or SIHI and gain on disposal of fixed assets. Please see *Note 13 – Investment in Debt Securities* to the accompanying unaudited consolidated financial statements for further discussion of our investment in Stradcom.

Expenses

Expenses associated with our ICT business totaled Php7,955 million in the first nine months of 2008, an increase of Php279 million, or 4%, from Php7,676 million in the same period in 2007 primarily due to increase in compensation and employee benefits, cost of sales, gain on derivative transactions, net financing costs, repairs and maintenance, and communication, training and travel, partially offset by lower professional and other contracted services, net foreign exchange gains, depreciation and amortization, and selling and promotions. As a percentage of our ICT total revenues, expenses related to our ICT business were 101% in the first nine months of 2008 and 2007, respectively.

The following table shows the breakdown of our unaudited ICT-related expenses for the nine months ended September 30, 2008 and 2007 and the percentage of each expense item to the total:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2008	%	2007	%	Amount	%
	(in millions)					
ICT services:						
Compensation and employee benefits[(1)]	Php4,523	57	Php3,984	52	Php539	14
Depreciation and amortization	624	8	715	9	(91)	(13)
Rent	529	7	495	7	34	7
Professional and other contracted services	484	6	938	12	(454)	(48)
Repairs and maintenance	429	5	380	5	49	13
Communication, training and travel	403	5	365	5	38	10
Cost of sales	360	4	184	2	176	96
Amortization of intangible assets	175	2	162	2	13	8
Selling and promotions	167	2	194	3	(27)	(14)
Financing costs – net	129	2	63	1	66	105
Taxes and licenses	71	1	66	1	5	8
Insurance and security services	42	1	34	–	8	24
Asset impairment	4	–	36	–	(32)	(89)
Equity share in net losses of associates	–	–	17	–	(17)	(100)
Gain on derivative transactions – net	–	–	(98)	(1)	98	100
Foreign exchange gains – net	(173)	(2)	–	–	(173)	(100)
Other expenses	188	2	141	2	47	33
Total	Php7,955	100	Php7,676	100	Php279	4

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

Compensation and employee benefits increased by Php539 million, or 14%, to Php4,523 million largely due to the consolidation of Springfield in April 2007 and the expansion of our customer interaction services business. ePLDT and subsidiaries' employee headcount increased by 666, or 4%, to 16,215 in the first nine months of 2008 as compared with 15,549 in the same period in 2007.

Depreciation and amortization charges decreased by Php91 million, or 13%, to Php624 million primarily due to a decrease in the depreciable asset base of our customer interaction services business partially offset by an increase in asset base brought about by the consolidation of Springfield in April 2007.

Rent expenses increased by Php34 million, or 7%, to Php529 million primarily due to higher office space rentals and leased circuits from other carriers incurred by our customer interaction services business.

Professional and other contracted services decreased by Php454 million, or 48%, to Php484 million primarily due to lower consultancy fees and subcontracted services incurred by the SPi Group related to its knowledge processing solutions.

Repairs and maintenance expenses increased by Php49 million, or 13%, to Php429 million primarily due to higher maintenance costs for new customer interaction service facilities.

Communication, training and travel expenses increased by Php38 million, or 10%, to Php403 million primarily due to the increased cost of phone lines, bandwidth and information system charges, coupled with the increase in local and foreign travel costs incurred by our customer interaction service and knowledge processing solution businesses.

Cost of sales increased by Php176 million, or 96%, to Php360 million primarily due to higher sales of software licenses and hardware products.

Amortization of intangible assets increased by Php13 million, or 8%, to Php175 million in relation to the acquisition of Springfield by SPi in April 2007. Please see *Note 11 – Goodwill and Intangible Assets* to the accompanying unaudited consolidated financial statements for further discussion.

Selling and promotion expenses decreased by Php27 million, or 14%, to Php167 million mainly due to the SPi Group's lower advertising and marketing spending.

Net financing costs increased by Php66 million, or 105%, to Php129 million in the first nine months of 2008 primarily due to a higher accretion on financial liabilities particularly the contingent consideration in relation to the Springfield acquisition in 2007 and a higher interest on loans and related items.

Taxes and licenses increased by Php5 million, or 8%, to Php71 million primarily due to higher business-related taxes.

Insurance and security services increased by Php8 million, or 24%, to Php42 million primarily due to higher premium costs and an increase in the value of assets insured.

Equity share in net losses of associates amounted to Php17 million in the first nine months of 2007 primarily due to share in net losses in an unconsolidated investee company.

Net foreign exchange gains of Php173 million in the first nine months of 2008 was primarily due to the gain on revaluation of net foreign currency-denominated assets due to the depreciation of the Philippine peso in the first nine months of 2008.

Other expenses increased by Php47 million, or 33%, to Php188 million mainly due to higher business-related costs, such as office supplies.

Benefit from Income Tax

Benefit from income tax decreased by Php71 million, or 97%, to Php2 million in the first nine months of 2008 primarily due to the corresponding deferred tax effect of the amortization of intangible assets.

Net Loss

In the first nine months of 2008, our ICT business segment registered a net loss of Php46 million as against a net income of Php7 million in the same period in 2007 mainly as a result of the 4% increase in ICT-related expenses which more than offset the 2% increase in ICT service revenues in the first nine months of 2008, and lower benefit from income tax in the first nine months of 2008 as compared with the same period in 2007.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the nine months ended September 30, 2008 and 2007 as well as our consolidated capitalization and other selected financial data as at September 30, 2008 and December 31, 2007:

	Nine Months Ended September 30,	
	2008	2007
(in millions)	(Unaudited)	
Cash Flows		
Net cash provided by operating activities	Php60,076	Php56,276
Net cash used in investing activities	6,991	19,557
Capital expenditures	*16,841*	*14,529*
Net cash used in financing activities	48,514	44,757
Net increase (decrease) in cash and cash equivalents	5,103	(8,399)

	September 30, 2008	December 31, 2007
(in millions)	**(Unaudited)**	**(Audited)**
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php52,835	Php53,372
Obligations under capital lease	3	15
	52,838	53,387
Current portion of interest-bearing financial liabilities:		
Notes payable	594	493
Long-term debt maturing within one year	14,681	6,775
Obligations under capital lease maturing within one year	70	481
Preferred stock subject to mandatory redemption	9	1,015
	15,354	8,764
Total interest-bearing financial liabilities	68,192	62,151
Total equity	99,359	112,511
	Php167,551	Php174,662
Other Financial Data		
Total assets	Php237,461	Php240,158
Property, plant and equipment – net	158,210	159,414
Cash and cash equivalents	22,550	17,447
Short-term investments	4,657	13,415

As at September 30, 2008, our consolidated cash and cash equivalents and short-term investments totaled Php27,207 million. Principal sources of consolidated cash and cash equivalents in the first nine months of 2008 were cash flows from operating activities amounting to Php60,076 million and drawings from PLDT's, Smart's and ePLDT's debt facilities aggregating Php8,978 million. These funds were used principally for capital outlays of Php16,841 million, total debt principal payments of Php9,703 million, interest payments of Php3,947 million, dividend payments of Php37,044 million and share buyback of Php4,493 million.

Operating Activities

Our consolidated net cash flows from operating activities increased by Php3,800 million, or 7%, to Php60,076 million in the first nine months of 2008 from Php56,276 million in the same period in 2007. A large portion of our consolidated cash flow is generated by our wireless service business, which accounted for 61% and 60% of our total service revenues in the first nine months of 2008 and 2007. Service revenues from our fixed line and information and communications technology accounted for 32% and 7%, respectively, of our total service revenues in the first nine months of 2008, and 33% and 7%, respectively, in the same period in 2007.

Cash flows from operating activities of our wireless business amounted to Php32,754 million in the first nine months of 2008, a decrease of Php1,753 million, or 5%, compared with Php34,507 million in the same period in 2007. The decrease in our wireless business segment's cash flows from operating activities was a result of higher income tax paid partially mitigated by a lower settlement of various payables in the first nine months of 2008. Likewise, cash flows from operating activities of our ICT business decreased by Php1,017 million, or 47%, to Php1,156 million in the first nine months of 2008 compared with Php2,173 million in the same period in 2007 mainly due to higher settlement of various liabilities. Conversely, cash flows from operating activities of our fixed line business increased by Php6,602 million, or 34%, to Php26,199 million in the first nine months of 2008 compared with Php19,597 million in the same period in 2007. This increase was primarily due to lower settlement of various liabilities and increase in advance payments received from various leased lines in the first nine months of 2008. The overall increase in our cash flows from operating activities was primarily due to lower level of settlement of various current liabilities, partially offset by higher income taxes paid in the first nine months of 2008. We believe that our continuing strong cash flows from operating activities on a consolidated basis will allow us to satisfy our current liabilities as our current ratio is less than 1:1 as at September 30, 2008.

Following the repayment by Smart by April 2006 of all its loan facilities that contained restrictive covenants, Smart is no longer required to seek consent from its lenders to pay dividends, redeem preferred shares, make distributions to PLDT or otherwise provide funds to PLDT or any associate. In the first nine months of 2008 and 2007, dividend payments received by PLDT from Smart amounted to Php24,200 million and Php26,927 million, respectively.

Investing Activities

Net cash used in investing activities amounted to Php6,991 million in the first nine months of 2008, a decrease of Php12,566 million, or 64%, from Php19,557 million in the same period in 2007 . The decrease resulted from a combination of: (1) higher proceeds from the maturity of short-term investments of Php12,682 million; (2) redemption of SIHI's preferred shares of Php2,498 million; (3) lower investment acquisition by Php1,890 million; (4) higher proceeds from disposal of property, plant and equipment of Php344 million; (5) higher investment in debt securities of Php2,866 million; and (6) the increase in capital expenditures of Php2,312 million in the first nine months of 2008.

Our consolidated capital expenditures in the first nine months of 2008 totaled Php16,841 million, an increase of Php2,312 million, or 16%, from Php14,529 million in the same period in 2007 primarily due to an increase in Smart's capital spending. Smart's capital spending of Php11,524 million in the first nine months of 2008 was used primarily to further upgrade its core, access and transmission network facilities and expand its wireless broadband facilities. PLDT's capital spending of Php4,616 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 Php532 million was primarily used to fund its continued customer interaction services expansion. The balance represented other subsidiaries' capital spending.

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

Financing Activities

On a consolidated basis, we used net cash of Php48,514 million in the first nine months of 2008 for financing activities, net of loan drawings by Smart and PLDT, an increase of Php3,757 million, or 8%, compared with Php44,757 million in the same period in 2007. The net cash used in financing activities was mainly utilized for dividend payments distributed to PLDT common and preferred stockholders, buyback of PLDT's common stock, debt repayments and interest payments.

Debt Financing

Additions to our consolidated debt in the first nine months of 2008 and 2007 totaled Php8,978 million and Php5,789 million, respectively, mainly from Smart's and PLDT's drawings related to the financing of our network expansion projects and capital expenditure requirements, respectively. Payments in respect of principal and interest of our total debt amounted to Php9,703 million and Php3,947 million, respectively, in the first nine months of 2008 and Php16,294 million and Php4,423 million, respectively, in the first nine months of 2007.

Our long-term debt increased by Php7,369 million, or 12%, to Php67,516 million in the first nine months of 2008, largely due to drawings from our term loan facilities and the depreciation of the Philippine peso in the first nine months of 2008 as compared with the peso appreciation in the same period in 2007 resulting to higher peso equivalents of our foreign currency-denominated debts, partially offset by debt amortizations and prepayments. The debt levels of PLDT and Smart increased by 17% and 7% to Php39,796 million and Php26,734 million, respectively, while the debt level of Mabuhay decreased by 17% to Php956 million in the first nine months of 2008 as compared with the levels as at December 31, 2007.

On January 15, 2008, PLDT signed a US$100 million term loan facility agreement with Norddeutsche Landesbank Girozentrale Singapore Branch to be used for the capital expenditure requirements of PLDT. The facility was drawn on March 27 and April 10, 2008 for US$50 million each. The outstanding balance of this loan as at September 30, 2008 amounted to US$90 million, or Php4,254 million, which is payable over five years in 10 equal semi-annual installments with final repayment due on March 27, 2013.

On July 15, 2008, PLDT signed a loan agreement amounting to US$50 million with Bank of the Philippine Islands to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on July 21, 2008 in the amount of US$15 million and the balance of US$35 million was drawn on September 30, 2008. The outstanding balance of this loan as at September 30, 2008 amounted to US$50 million, or Php2,363 million, which is payable in equal quarterly installments starting July 21, 2009 with final repayment due on July 21, 2013.

Approximately Php27,116 million principal amount of our consolidated outstanding long-term debt as at September 30, 2008 is scheduled to mature over the period from 2008 to 2011. Of this amount, Php14,648 million is attributable to PLDT, Php11,482 million to Smart and the remainder to Mabuhay Satellite and ePLDT.

For a complete discussion of our long-term debt, see *Note 18 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying unaudited consolidated financial statements.

Debt Covenants

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

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

Financing Requirements

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

As a result of our strong cash flows and lower debt levels, we increased our regular dividend payout ratio to 70% earnings per share starting 2007 from 60% of 2006 earnings per share.

With respect to our 2007 earnings, in addition to the Php60 per share dividend declared on August 7, 2007, we declared on March 4, 2008 a regular cash dividend of Php68 per share and a special cash dividend of Php56 per share, in the aggregate representing close to a 100% payout of our 2007 earnings per share. On August 5, 2008, we declared an interim cash dividend of Php70 per share and paid on September 22, 2008.

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
Standard & Poor's Ratings Services, or Standard & Poor's	Foreign Currency Rating	BB+	Stable
Moody's Investor Service, or Moody's	Foreign Currency Senior Unsecured Debt Rating	Ba2	Positive
	Local Currency Corporate Family Rating	Baa2	Positive
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	BB+	Stable
	Long-term Local Currency Issuer Default Rating	BBB	Stable
	National Long-term Rating	AAA(ph1)	Stable

On October 7, 2008, Fitch affirmed our long-term foreign and local currency issuer default ratings at "BB+" and "BBB", respectively. Also, our national long-term rating has been affirmed at "AAA(ph1)", as well as our global bonds and senior notes at "BB+". The outlook is stable. The ratings reflect our preeminent position in the Philippine telecommunications industry, with diversified and integrated operations in fixed line, cellular, wired and wireless broadband services, internet services, as well as our notable presence in the call center and business process outsourcing industry. The stable outlook recognizes our ability to sustain our leading market position and maintain our strong financial profile, despite increasing shareholder distributions.

On March 19, 2008, Moody's affirmed our local currency rating and changed its outlook from stable to positive at the same time affirming our foreign currency bond Ba2 rating with a positive outlook. The rating action reflects our ability to achieve ongoing revenue growth and fund high levels of capital expenditures internally, as well as the ability to increase dividend payments to our shareholders. On January 28, 2008, Moody's affirmed our foreign currency senior unsecured debt rating from stable to positive following the change in the outlook of the Philippines Ba3 country ceiling for foreign currency bonds to positive from stable.

Off-Balance Sheet Arrangement

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

Equity Financing

PLDT raised Php7 million and Php74 million from the exercise by certain officers and executives of stock options in the first nine months of 2008 and 2007, respectively. In addition, through our subscriber investment plan which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% cumulative convertible preferred stock as part of the upfront payments collected from subscribers, PLDT was able to raise Php1 million in the first nine months of 2008 from this source.

As part of our goal to maximize returns to our shareholders, we obtained on January 29, 2008 an approval from our board of directors to conduct a share buyback program for up to two million PLDT common shares. On August 5, 2008, our board of directors also approved a second share buyback program of up to another 2 million shares representing approximately 1.1% of PLDT's total outstanding common shares. As at September 30, 2008, we have acquired and paid a total of 1,773,580 shares of common stock at a weighted average price of Php2,533 for a total amount of Php4,493 million. Please refer to *Note 17 – Equity* to the accompanying unaudited consolidated financial statements for further details.

Cash dividend payments in the first nine months of 2008 amounted to Php37,044 million compared with Php28,394 million paid to common and preferred shareholders in the same period in 2007. In the first nine months of 2008, there were 187.7 million PLDT common shares outstanding compared with 188.6 million in the same period in 2007.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our contractual obligations, see *Note 24 – Contractual Obligations and Commercial Commitments* to the accompanying unaudited consolidated financial statements.

Commercial Commitments

As at September 30, 2008, our outstanding commercial commitments, in the form of letters of credit, amounted to Php1,289 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, interest rate risk, credit risk and capital management 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, equity issues and sales of certain assets.

For further discussions of these risks, see *Note 24 – Contractual Obligations and Commercial Commitments* and *Note 26 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements.

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 2008, the inflation rate has increased; we expect this trend to have an impact on our operations moving forward. The average inflation rate in the Philippines in the first nine months of 2008 was 9.2% compared with 2.6% in the same period in 2007.

PART II – OTHER INFORMATION

PLDT, Mabuhay, ProtoStar Ltd. (ProtoStar), and ProtoStar III Ltd. (ProtoStar III), sign several cooperation agreements

On September 16, 2008, PLDT, its subsidiary Mabuhay, ProtoStar, a Bermuda-based company and its wholly-owned Bermuda subsidiary ProtoStar III, signed several agreements covering multiple areas of cooperation.

Key aspects of the agreements include: (a) an exchange of certain Mabuhay assets for an equity position in ProtoStar; (b) expanded use of Mabuhay's Subic Space Center for the operation and control of satellites; (c) an option for PLDT to make further investments in ProtoStar; and (d) an agreement for PLDT to lease C-band transponder capacity on the recently launched ProtoStar I satellite owned and operated by ProtoStar I Ltd., also a wholly-owned Bermuda subsidiary of ProtoStar.

ProtoStar plans to launch several more satellites in the coming years, with a ProtoStar II satellite due to be launched in the spring of 2009. It aims to operate high-power geostationary satellites optimized for direct-to-home satellite television, broadband internet and GSM backhaul services, wherein the availability of significant satellite capacity which will further add to the robustness of our network.

Related Party Transactions

For a detailed discussion of the related party transactions, see *Note 22 –Related Party Transactions* to the accompanying unaudited consolidated financial statements.

ANNEX – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of unaudited consolidated receivables as at September 30, 2008:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(In Millions)		
Corporate subscribers	Php9,218	Php1,972	Php1,214	Php603	Php5,429
Retails subscribers	8,472	2,263	1,078	303	4,828
Foreign administrations	4,533	1,588	1,176	634	1,135
Domestic carriers	1,017	100	85	84	748
Dealers, agents and others	4,324	3,497	12	3	812
Total	Php27,564	Php9,420	Php3,565	Php1,627	Php12,952
Less: Allowance for doubtful accounts ..	12,728				
Total Receivables - net............................	**Php14,836**				

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the third quarter of 2008 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
First Vice President and Controller
(Principal Accounting Officer)

Date: November 4, 2008