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, 2009**

Period Ended Date

**Not Applicable**

(Secondary License Type and File Number)

November 3, 2009

Securities and Exchange Commission
SEC Building, EDSA
Mandaluyong City

Attention: Director Justina Callangan
Corporation Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, 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, 2009.

Very truly yours,

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

**MA. LOURDES C. RAUSA-CHAN**
Corporate Secretary

COVER SHEET

| P | W | - | 5 | 5 |
|---|---|---|---|---|

S.E.C. Registration No.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

RAMON COJUANGCO BLDG. MAKATI AVE. MAKATI CITY

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

MS. JUNE CHERYL A. CABAL
Contact Person

816-8534
Company Telephone Number

| 1 | 2 | 3 | 1 |
|---|---|---|---|

Month Day
Fiscal Year

SEC FORM 17-Q
FORM TYPE

0 6 Every 2nd Tuesday
Month Day
Annual Meeting

C F D
Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

Total Amount of Borrowings

2,183,094
As at September 30, 2009
Total No. of Stockholders

N/A
Domestic

N/A
Foreign

---

**To be accomplished by SEC Personnel concerned**

File Number

LCU

Document I.D.

Cashier

**STAMPS**

Remarks: Please use black ink for scanning purposes.

# SECURITIES AND EXCHANGE COMMISSION

## 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, 2009

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 | 186,790,421 shares as at September 30, 2009 |

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. Consolidated Financial Statements**

*Our consolidated financial statements as at September 30, 2009 (unaudited) and December 31, 2008 (audited) and for the nine months ended September 30, 2009 and 2008 (unaudited) and related notes (pages F-1 to F-115) 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 of the accompanying unaudited consolidated financial statements for a list of these subsidiaries, including a description of their respective principal business activities).*

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

*The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "Philippine pesos," "Php" or "pesos" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "yen" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. 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 Php47.42 to US$1.00, the volume weighted average exchange rate as at September 30, 2009 quoted through the Philippine Dealing System.*

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

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

## Financial Highlights and Key Performance Indicators

| (in millions, except for earnings per common share, operational data and exchange rates) | September 30, 2009 (Unaudited) | December 31, 2008 (Audited) | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| **Consolidated Statements of Financial Position** | | | | |
| Total assets | Php266,531 | Php252,558 | Php13,973 | 6 |
| Property, plant and equipment – net | 159,452 | 160,326 | (874) | (1) |
| Cash and cash equivalents and short-term investments | 28,523 | 40,354 | (11,831) | (29) |
| Total equity attributable to equity holders of PLDT | 89,249 | 105,531 | (16,282) | (15) |
| Notes payable and long-term debt | 93,609 | 73,911 | 19,698 | 27 |
| Net debt[1] to equity ratio | 0.73x | 0.32x | – | – |

| | Nine Months Ended September 30, | | Increase (Decrease) | |
|---|---|---|---|---|
| | 2009 | 2008 | Amount | % |
| | (Unaudited) | | | |
| **Consolidated Income Statements** | | | | |
| Revenues | Php109,970 | Php107,503 | Php2,467 | 2 |
| Expenses | 65,515 | 61,003 | 4,512 | 7 |
| Other expenses | (1,506) | (5,146) | 3,640 | (71) |
| Income before income tax | 42,949 | 41,354 | 1,595 | 4 |
| Net income attributable to equity holders of PLDT | 30,018 | 26,179 | 3,839 | 15 |
| Pre-tax income margin | 39% | 38% | – | – |
| Net income margin | 27% | 24% | – | – |
| Earnings per common share | | | | |
| Basic | 158.70 | 137.15 | 21.55 | 16 |
| Diluted | 158.68 | 137.14 | 21.54 | 16 |
| **Consolidated Statements of Cash Flows** | | | | |
| Net cash provided by operating activities | 56,326 | 60,076 | (3,750) | (6) |
| Net cash used in investing activities | 36,157 | 6,991 | 29,166 | 417 |
| *Capital expenditures* | *18,064* | *16,841* | *1,223* | *7* |
| Net cash used in financing activities | 26,797 | 48,514 | (21,717) | (45) |
| **Operational Data** | | | | |
| Number of cellular subscribers | 39,147,990 | 34,176,370 | 4,971,620 | 15 |
| Number of fixed line subscribers | 1,866,892 | 1,773,091 | 93,801 | 5 |
| Number of broadband subscribers | 1,366,348 | 876,176 | 490,172 | 56 |
| *Fixed Line* | *548,313* | *388,015* | *160,298* | *41* |
| *Wireless* | *818,035* | *488,161* | *329,874* | *68* |
| Number of employees | 29,448 | 29,650 | (202) | (1) |
| *Fixed Line*[2] | *8,117* | *7,813* | *304* | *4* |
| *Wireless* | *5,499* | *5,622* | *(123)* | *(2)* |
| *Information and Communications Technology* | *15,832* | *16,215* | *(383)* | *(2)* |

| **Exchange Rates** | **Php per US$** |
|---|---|
| September 30, 2009 | Php47.42 |
| December 31, 2008 | 47.65 |
| September 30, 2008 | 47.26 |
| December 31, 2007 | 41.41 |

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

(2) *Increase in headcount was primarily due to the acquisition of PLDT-Philcom and the transfer of Smart's corporate business group to PLDT.*

**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, Pilipino Telephone Corporation, or Piltel, (on August 17, 2009, Smart acquired the cellular business of Piltel) and Connectivity Unlimited Resources Enterprises, or CURE, our cellular service providers; Smart Broadband, Inc., or SBI, Blue Ocean Wireless, or BOW, and Airborne Access Corporation, our wireless broadband providers; 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 operators;

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

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

We registered consolidated revenues of Php109,970 million in the first nine months of 2009, an increase of Php2,467 million, or 2%, as compared with Php107,503 million in the same period in 2008 primarily due to an increase in our service revenues by Php2,689 million resulting largely from an increase in the service revenues of our wireless business, which was primarily due to an increase in the number of our cellular and broadband subscribers.

Consolidated expenses increased by Php4,512 million, or 7%, to Php65,515 million in the first nine months of 2009 from Php61,003 million in the same period in 2008, largely resulting from increases in compensation and employee benefits, asset impairment, depreciation and amortization, and rent partly offset by lower professional and other contracted services, repairs and maintenance, communication, training and travel, and taxes and licenses.

Consolidated other expenses decreased by Php3,640 million, or 71%, to Php1,506 million in the first nine months of 2009 as compared with Php5,146 million in the same period in 2008. The decrease was primarily due to the combined effects of the following: (i) net foreign exchange gains of Php232 million in 2009 as compared with net foreign exchange losses of Php5,985 million in 2008 due to the appreciation of the Philippine peso to the U.S. dollar in the first nine months of 2009 to Php47.42 in

September 30, 2009 from Php47.65 in December 31, 2008 and the depreciation of the Philippine peso to the U.S. dollar from Php41.41 in December 31, 2007 to Php47.26 in September 30, 2008; (ii) equity share in net earnings of associates and joint ventures in 2009 of Php311 million as against equity share in net losses of associates and joint ventures in 2008 of Php74 million mainly due to the share in net earnings of Manila Electric Company, or Meralco, from July 14, 2009 to September 30, 2009; (iii) lower net financing costs by Php46 million mainly due to lower interest on loans and other related items - net on account of PLDT's lower premium payment in relation with the buyback of bonds; (iv) net losses on derivative financial instruments of Php534 million in the first nine months of 2009 as against net gains on derivative financial instruments of Php2,855 million on account of a loss on mark-to-market valuation on foreign currency swaps in 2009 and the effect of the de-designation of foreign currency swaps and option contracts in the same period in 2008; and (v) lower interest income of Php23 million due to lower average level of cash balances.

Consolidated net income attributable to equity holders of PLDT increased by Php3,839 million, or 15%, to Php30,018 million in the first nine months of 2009 from Php26,179 million in the same period in 2008. The increase was mainly attributable to a decrease in other expenses by Php3,640 million, an increase in consolidated revenues by Php2,467 million, and a decrease in the consolidated provision for income tax by Php2,347 million due to a reduction in the regular corporate income tax rate from 35% to 30% beginning in January 2009 and availment of optional standard deduction, or OSD, in the computation of income tax by our wireless business units, partially offset by an increase in consolidated expenses by Php4,512 million. Likewise, our consolidated basic and diluted earnings per common share increased to Php158.70 and Php158.68, respectively, in the first nine months of 2009 from Php137.15 and Php137.14, respectively, in the same period in 2008. In the first nine months of 2009, as a result of the share buyback program implemented in 2008, there were 187 million PLDT common shares outstanding as compared with 188 million PLDT common shares outstanding in the same period in 2008.

## Results of Operations

The table below shows the contribution by each of our business segments to our revenues, expenses, other income (expenses) and net income for the nine months ended September 30, 2009 and 2008. The majority of our revenues are derived from our operations within the Philippines.

| | Wireless | Fixed Line | ICT | Inter-segment Transactions | Total |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| **For the nine months ended September 30, 2009 (Unaudited)** | | | | | |
| Revenues | Php72,468 | Php38,388 | Php8,386 | (Php9,272) | Php109,970 |
| Expenses | 38,313 | 28,215 | 8,300 | (9,313) | 65,515 |
| Other income (expenses) | 2,002 | (3,625) | 241 | (124) | (1,506) |
| Income before income tax | 36,157 | 6,548 | 327 | (83) | 42,949 |
| Net income | 25,858 | 4,719 | 165 | (58) | 30,684 |
| Net income attributable to equity holders of PLDT | 25,198 | 4,713 | 165 | (58) | 30,018 |
| **For the nine months ended September 30, 2008 (Unaudited)** | | | | | |
| Revenues | 70,293 | 36,948 | 7,873 | (7,611) | 107,503 |
| Expenses | 35,210 | 25,459 | 7,981 | (7,647) | 61,003 |
| Other income (expenses) | (2,553) | (2,544) | 60 | (109) | (5,146) |
| Income (loss) before income tax | 32,530 | 8,945 | (48) | (73) | 41,354 |
| Net income (loss) | 21,191 | 5,670 | (46) | (73) | 26,742 |
| Net income (loss) attributable to equity holders of PLDT | 20,593 | 5,667 | (8) | (73) | 26,179 |

| **Increase (Decrease)** | Amount | % | Amount | % | Amount | % | Amount | Amount | % |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | (in millions) | | | | |
| Revenues | Php2,175 | 3 | Php1,440 | 4 | Php513 | 7 | (Php1,661) | Php2,467 | 2 |
| Expenses | 3,103 | 9 | 2,756 | 11 | 319 | 4 | (1,666) | 4,512 | 7 |
| Other income (expenses) | 4,555 | 178 | (1,081) | 42 | 181 | 302 | (15) | 3,640 | (71) |
| Income before income tax | 3,627 | 11 | (2,397) | (27) | 375 | 781 | (10) | 1,595 | 4 |
| Net income | 4,667 | 22 | (951) | (17) | 211 | 459 | 15 | 3,942 | 15 |
| Net income attributable to equity holders of PLDT | 4,605 | 22 | (954) | (17) | 173 | 2,163 | 15 | 3,839 | 15 |

## Wireless

### *Revenues*

Revenues generated from our wireless business amounted to Php72,468 million in the first nine months of 2009, an increase of Php2,175 million, or 3%, from Php70,293 million in the same period in 2008. The following table summarizes our unaudited total revenues from our wireless business for the nine months ended September 30, 2009 and 2008 by service segment:

| | 2009 | % | 2008 | % | Increase (Decrease) Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Wireless Services: | | | | | | |
| Service Revenues: | | | | | | |
| Cellular | Php65,844 | 91 | Php64,461 | 92 | Php1,383 | 2 |
| Wireless broadband, satellite and others | 5,358 | 7 | 4,343 | 6 | 1,015 | 23 |
| | 71,202 | 98 | 68,804 | 98 | 2,398 | 3 |
| Non-Service Revenues: | | | | | | |
| Sale of cellular handsets, cellular SIM-packs and broadband data modems | 1,266 | 2 | 1,489 | 2 | (223) | (15) |
| Total Wireless Revenues | Php72,468 | 100 | Php70,293 | 100 | Php2,175 | 3 |

### *Service Revenues*

Our wireless service revenues increased by Php2,398 million, or 3%, to Php71,202 million in the first nine months of 2009 as compared with Php68,804 million in the same period in 2008, mainly as a result of the growth in the cellular and wireless broadband subscriber base. In particular, revenues from short messaging service, or SMS, increased due to the larger cellular subscriber base, and lower dealer discounts and interconnection expense. Voice revenues also increased due to the growth in international inbound call volumes in the first nine months of 2009 as compared with the same period in 2008. Such increases were also complemented by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues from Php43.22 in the first nine months of 2008 to Php47.93 in the same period in 2009. However, because the growth in our cellular subscriber base was mainly in the lower income segment of the Philippine wireless market, average monthly cellular ARPUs for the first nine months of 2009 were lower as compared with the same period in 2008. As a percentage of our total wireless revenues, service revenues contributed 98% in each of the first nine months of 2009 and 2008.

*Cellular Service*

Our cellular service revenues in the first nine months of 2009 amounted to Php65,844 million, an increase of Php1,383 million, or 2%, from Php64,461 million in the same period in 2008. Cellular service revenues accounted for 92% of our wireless service revenues in the first nine months of 2009 as compared with 94% in the same period in 2008.

The following table shows the breakdown of our unaudited cellular service revenues and other key measures of our cellular business as at and for the nine months ended September 30, 2009 and 2008:

| | 2009 | 2008 | Increase Amount | % |
|---|---|---|---|---|
| | (in millions) | | | |
| Cellular service revenues | Php65,844 | Php64,461 | Php1,383 | 2 |
| *By service type* | *63,945* | *62,700* | *1,245* | *2* |
| Prepaid | 59,021 | 58,025 | 996 | 2 |
| Postpaid | 4,924 | 4,675 | 249 | 5 |
| *By component* | *63,945* | *62,700* | *1,245* | *2* |
| Voice | 28,459 | 27,293 | 1,166 | 4 |
| Data | 35,486 | 35,407 | 79 | – |
| *Others*[(1)] | *1,899* | *1,761* | *138* | *8* |

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

| | 2009 | 2008 | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| Cellular subscriber base | 39,147,990 | 34,176,370 | 4,971,620 | 15 |
| Prepaid | 38,715,974 | 33,810,530 | 4,905,444 | 15 |
| *Smart* | *22,089,866* | *20,521,552* | 1,568,314 | 8 |
| *Piltel*[(1)] | *16,552,143* | *13,288,978* | *3,263,165* | *25* |
| *CURE*[(2)] | *73,965* | – | *73,965* | *100* |
| Postpaid | 432,016 | 365,840 | 66,176 | 18 |
| Systemwide traffic volumes (in millions) | | | | |
| Calls (in minutes) | 5,324 | 4,973 | 351 | 7 |
| Domestic – outbound | 3,154 | 2,867 | 287 | 10 |
| International | 2,170 | 2,106 | 64 | 3 |
| *Inbound* | *2,027* | *1,940* | *87* | *4* |
| *Outbound* | *143* | *166* | *(23)* | *(14)* |
| SMS count | 202,459 | 184,515 | 17,944 | 10 |
| Text messages | 201,218 | 183,276 | 17,942 | 10 |
| Domestic | 200,988 | 183,054 | 17,934 | 10 |
| *Bucket-Priced* | *185,405* | *163,946* | *21,459* | *13* |
| *Standard* | *15,583* | *19,108* | *(3,525)* | *(18)* |
| International | 230 | 222 | 8 | 4 |
| Value-Added Services | 1,227 | 1,218 | 9 | 1 |
| Financial Services | 14 | 21 | (7) | (33) |

(1) *The Red mobile brand was launched in November 2008.*
(2) *The transfer of Piltel's cellular business to Smart was completed on August 17, 2009.*

Revenues attributable to our cellular prepaid service amounted to Php59,021 million in the first nine months of 2009, an increase of Php996 million, or 2%, over the Php58,025 million earned in the same period in 2008. Prepaid cellular service revenues accounted for 92% and 93% of voice and data revenues in the first nine months of 2009 and 2008, respectively. Revenues attributable to Smart's postpaid cellular service amounted to Php4,924 million in the first nine months of 2009, an increase of Php249 million, or 5%, over the Php4,675 million earned in the same period in 2008, and accounted for

8% and 7% of voice and data revenues in the first nine months of 2009 and 2008, respectively.

*Voice Services*

Cellular revenues from our voice services, which include all voice traffic and voice value-added services, or VAS, such as voice mail and outbound international roaming, increased by Php1,166 million, or 4%, to Php28,459 million in the first nine months of 2009 from Php27,293 million in the same period in 2008 primarily due to the growth in inbound international call volumes complemented by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues from Php43.22 in the first nine months of 2008 to Php47.93 in the same period in 2009. Cellular voice services accounted for 43% of our cellular service revenues in the first nine months of 2009 as compared with 42% in the same period in 2008.

Domestic outbound calls totaled 3,154 million minutes in the first nine months of 2009, an increase of 287 million minutes, or 10%, as compared with 2,867 million minutes in the same period in 2008. International inbound and outbound calls totaled 2,170 million minutes in the first nine months of 2009, an increase of 64 million minutes, or 3%, as compared with 2,106 million minutes in the same period in 2008, mainly due to an increase in cellular subscriber base.

On June 26, 2009, *Smartalk*, Smart's unlimited voice offering, was made available to all *Smart Buddy* and *Smart Gold* subscribers nationwide. The new service does not require any changes in SIM or cellular phone number and enables *Smart Buddy* and *Smart Gold* subscribers to make unlimited calls to over the 39 million mobile phone users on the Smart network. Smart subscribers will be able to avail of the service, via registration, by purchasing loads for unlimited calls which come in two denominations: "*Smartalk 100*" which offers five days of unlimited calls for only Php100 and "*Smartalk 500*" which offers 30 days of unlimited calls to any subscriber on the Smart network for only Php500.

Buoyed by the widespread acceptance of the service, Smart launched a variant in October 2009, the *Smartalk Plus*, which offers unlimited calling and on-net texting during off-peak hours and reduced rates during peak hours. *Smartalk Plus'* Php100 load denomination is valid for five days and provides on-net unlimited calls and SMS from 10:01 p.m. to 5:00 p.m. and, call and SMS rates of Php2.50 per minute and Php0.20 per SMS, respectively, from 5:01 p.m. to 10:00 p.m.

*Data Services*

Cellular revenues from our data services, which include all text messaging-related services as well as VAS, increased by Php79 million to Php35,486 million in the first nine months of 2009 from Php35,407 million in the same period in 2008. Cellular data services accounted for 54% and 55% of our cellular service revenues in the first nine months of 2009 and 2008, respectively.

The following table shows the breakdown of our unaudited cellular data revenues for the nine months ended September 30, 2009 and 2008:

| | 2009 | 2008 | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| | | (in millions) | | |
| Text messaging | | | | |
| Domestic | Php32,471 | Php32,196 | Php275 | 1 |
| *Bucket-Priced* | *20,365* | *19,462* | *903* | *5* |
| *Standard* | *12,106* | *12,734* | *(628)* | *(5)* |
| International | 1,143 | 1,386 | (243) | (18) |
| | 33,614 | 33,582 | 32 | – |
| Value-added services | | | | |
| Standard[(1)] | 787 | 1,003 | (216) | (22) |
| Rich Media[(2)] | 752 | 426 | 326 | 77 |
| *Pasa Load* | 310 | 359 | (49) | (14) |
| | 1,849 | 1,788 | 61 | 3 |
| Financial services | | | | |
| *Smart Money* | 20 | 34 | (14) | (41) |
| Mobile Banking | 3 | 3 | – | – |
| | 23 | 37 | (14) | (38) |
| Total | Php35,486 | Php35,407 | Php79 | – |

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

Text messaging-related services contributed revenues of Php33,614 million in the first nine months of 2009, an increase of Php32 million as compared with Php33,582 million in the same period in 2008, and accounted for 95% of our total cellular data revenues in each of the first nine months of 2009 and 2008. The increase in revenues from text messaging-related services resulted mainly from Smart's bucket-priced text promotional offerings, partially offset by a decrease in standard text messaging revenues. Text messaging revenues from the various bucket-priced plans totaled Php20,365 million in the first nine months of 2009, an increase of Php903 million, or 5%, as compared with Php19,462 million in the same period in 2008. On the other hand, standard text messaging revenues decreased by Php628 million, or 5%, to Php12,106 million in the first nine months of 2009 from Php12,734 million in the same period in 2008.

Standard text messages totaled 15,583 million in the first nine months of 2009, a decrease of 3,525 million, or 18%, as compared with 19,108 million in the same period in 2008 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in the first nine months of 2009 totaled 185,405 million, an increase of 21,459 million, or 13%, as compared with 163,946 million in the same period in 2008.

VAS, which contributed revenues of Php1,849 million in the first nine months of 2009, increased by Php61 million, or 3%, from Php1,788 million in the same period in 2008 primarily due to higher usage of rich media services, partially offset by lower usage of standard services and *Pasa Load*, which is a service allowing prepaid subscribers to transfer small denominations of airtime credits to other prepaid subscribers, owing to the continued patronage of low-denomination top-ups.

*Subscriber Base, ARPU and Churn Rates*

At the end of the first nine months of 2009, Smart, Piltel and CURE cellular subscribers totaled 39,147,990, an increase of 4,971,620, or 15%, over their combined cellular subscriber base of 34,176,370 at the end of the same period in 2008. Our cellular prepaid subscriber base grew by 15% to 38,715,974 in the first nine months of 2009 from 33,810,530 in the same period in 2008, while our cellular postpaid subscriber base increased by 18% to 432,016 in the first nine months of 2009 from 365,840 in the same period in 2008. Prepaid subscribers accounted for 99% of our total subscriber base in each of the first nine months of 2009 and 2008. Prepaid and postpaid subscribers reflected net activations of 3,889,506 and 33,880, respectively, in the first nine months of 2009 and 4,111,380 and 23,960, respectively, in the same period in 2008.

Our unaudited net subscriber activations for the nine months ended September 30, 2009 and 2008 were as follows:

| | | | Increase (Decrease) | |
|---|---|---|---|---|
| | **2009** | **2008** | **Amount** | **%** |
| Prepaid | 3,889,506 | 4,111,380 | (221,874) | (5) |
| *Smart* | *1,588,249* | *524,228* | *1,064,021* | *203* |
| *Piltel*[1] | *2,243,650* | *3,587,152* | *(1,343,502)* | *(37)* |
| *CURE*[2] | *57,607* | *–* | *57,607* | *100* |
| Postpaid | 33,880 | 23,960 | 9,920 | 41 |
| Total | 3,923,386 | 4,135,340 | (211,954) | (5) |

*(1) TheRed mobile brand was launched in November 2008.*
*(2) The transfer of Piltel's cellular business to Smart was completed on August 17, 2009.*

For Smart prepaid, the average monthly churn rate for the first nine months of 2009 and 2008 was 4.4% and 4.6%, respectively, while the average monthly churn rate for Piltel subscribers was 4.9% and 4.7% in the first nine months of 2009 and 2008, respectively. The average monthly churn rate for CURE subscribers was 8.5% in the first nine months of 2009.

The average monthly churn rate for Smart's postpaid subscribers were 1.8% and 1.3% for the first nine months of 2009 and 2008, respectively. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within 30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

The following table summarizes our unaudited cellular average monthly ARPUs for the nine months ended September 30, 2009 and 2008:

| | Gross[1] | | Increase (Decrease) | | Net[2] | | Increase (Decrease) | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | **2008** | **Amount** | **%** | **2009** | **2008** | **Amount** | **%** |
| Prepaid | | | | | | | | |
| Smart | Php263 | Php290 | (Php27) | (9) | Php208 | Php228 | (Php20) | (9) |
| Piltel | 164 | 195 | (31) | (16) | 135 | 157 | (22) | (14) |
| CURE[3] | 20 | – | 20 | 100 | 12 | – | 12 | 100 |
| Prepaid – Blended[4] | 221 | 255 | (34) | (13) | 177 | 202 | (25) | (12) |
| Postpaid – Smart | 1,826 | 2,075 | (249) | (12) | 1,316 | 1,495 | (179) | (12) |
| Prepaid and Postpaid Blended[5] | 238 | 275 | (37) | (13) | 189 | 216 | (27) | (13) |

*(1) Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, including discounts, allocated content-provider costs and interconnection income but excluding inbound roaming revenues, by the average number of subscribers in the month.*
*(2) Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income net of interconnection expense, but net of discounts and content-provider costs, by the average number of subscribers in the month.*
*(3) The Red mobile brand was launched in November 2008.*
*(4) The average monthly ARPU of Smart, Piltel and CURE.*
*(5) The average monthly ARPU of prepaid and postpaid subscribers of Smart and prepaid subscribers of Piltel and CURE.*

Prepaid service revenues consist mainly of charges for subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU in the first nine months of 2009 was Php221, a decrease of 13%, as compared with Php255 in the same period in 2008. The decrease was primarily due to a decline in the average outbound and inbound domestic voice and text messaging revenue per subscriber in the first nine months of 2009 as compared with the same period in 2008. On a net basis, prepaid blended average monthly ARPU in the first nine months of 2009 was Php177, a decrease of 12%, as compared with Php202 in the same period in 2008.

Gross average monthly ARPU for postpaid subscribers decreased by 12% to Php1,826 as net average monthly ARPU also decreased by 12% to Php1,316 in the first nine months of 2009 as compared with Php2,075 and Php1,495 in the same period in 2008, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php238 in the first nine months of 2009, a decrease of 13%, as compared with Php275 in the same period in 2008. Net average monthly prepaid and postpaid blended ARPU decreased by 13% to Php189 in the first nine months of 2009 from Php216 in the same period in 2008.

Our average quarterly prepaid and postpaid ARPUs for the three quarters of 2009 and four quarters of 2008 were as follows:

| | **Prepaid** | | | | | | **Postpaid** | |
|---|---|---|---|---|---|---|---|---|
| | **Smart** | | **Piltel** | | **CURE**[(1)] | | **Smart** | |
| | **Gross**[(2)] | **Net**[(3)] | **Gross**[(2)] | **Net**[(3)] | **Gross**[(2)] | **Net**[(3)] | **Gross**[(2)] | **Net**[(3)] |
| **2008 (Audited)** | | | | | | | | |
| First Quarter | Php292 | Php230 | Php207 | Php163 | Php– | Php– | Php2,013 | Php1,472 |
| Second Quarter | 294 | 232 | 199 | 159 | – | – | 2,134 | 1,510 |
| Third Quarter | 285 | 223 | 178 | 148 | – | – | 2,078 | 1,505 |
| Fourth Quarter | 291 | 234 | 192 | 162 | 48 | 39 | 2,037 | 1,445 |
| **2009 (Unaudited)** | | | | | | | | |
| First Quarter | 272 | 216 | 176 | 144 | 25 | 14 | 1,863 | 1,364 |
| Second Quarter | 269 | 212 | 168 | 138 | 16 | 10 | 1,816 | 1,278 |
| Third Quarter | 249 | 197 | 148 | 122 | 19 | 12 | 1,801 | 1,307 |

(1) *The Red mobile brand was launched in November 2008.*
(2) *Gross quarterly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.*
(3) *Net quarterly ARPU is calculated based on the average of the net monthly ARPUs for the quarter.*

*Wireless Broadband, Satellite and Other Services*

Our revenues from wireless broadband, satellite and other services consist mainly of wireless broadband service revenues from SBI, rentals received for the lease of Mabuhay Satellite's transponders, charges for ACeS Philippines' satellite information and messaging services and service revenues generated by the mobile virtual network operations of PLDT Global's subsidiary. Gross revenues from these services in the first nine months of 2009 amounted to Php5,358 million, an increase of Php1,015 million, or 23%, from Php4,343 million in the same period in 2008 principally due to the growth in our wireless broadband business complemented by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar from Php43.22 in the first nine months of 2008 to Php47.93 in the same period in 2009 on our U.S. dollar and U.S. dollar-linked revenues, partially offset by lower satellite transponder rental revenues owing to lower rental charges and a decrease in the number of transponders being leased out.

SBI offers a number of wireless broadband services and had a total of 801,558 subscribers in the first nine months of 2009, an increase of 328,982 subscribers, or 70%, as compared with 472,576 subscribers in the same period in 2008. Our postpaid wireless broadband subscriber base grew by 8% to 429,012 in the first nine months of 2009 from 397,021 in the same period in 2008, while our prepaid wireless broadband subscriber base increased by 393% to 372,546 in the first nine months of 2009 from 75,555 in the same period in 2008. Wireless broadband service revenues contributed Php3,899 million to wireless service revenues in the first nine months of 2009, increasing by Php804 million, or 26%, as compared with Php3,095 million in the same period in 2008.

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

In 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 may avail of various plans where monthly fees depend on internet speeds, ranging from 384 Kbps to up to 2 Mbps, and hours of internet usage. On April 13, 2008, we launched the *SmartBro Plug-It Prepaid* which offers 30-minute internet access for every Php10 worth of load. In March 2009, we introduced *SmartBro Share-It*, which allows users to share their broadband access with other computers in a home network via a WiFi router. *SmartBro Share-It* runs on a High Speed Packet Access, or HSPA, 850 network ready for transfer capacities of up to 2 Mbps. The monthly service fee of Php999 includes 90 hours per month of high-speed internet usage.

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

***Non-Service Revenues***

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues decreased by Php223 million, or 15%, to Php1,266 million in the first nine months of 2009 as compared with Php1,489 million in the same period in 2008 primarily due to the lower sales volume of cellular phonekits and SIM-packs partly offset by increased sales of broadband data modems.

***Expenses***

Expenses associated with our wireless business in the first nine months of 2009 amounted to Php38,313 million, an increase of Php3,103 million, or 9%, from Php35,210 million in the same period in 2008. A significant portion of this increase was attributable to rent, compensation and employee benefits, depreciation and amortization, asset impairment, and selling and promotions expenses partially offset by lower expenses related to taxes and licenses, and communication, training and travel expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 53% and 50% in the first nine months of 2009 and 2008, respectively.

Cellular business expenses accounted for 86% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 14% of our wireless business expenses in the first nine months of 2009 as compared with 89% and 11%, respectively, in the same period in 2008.

The following table summarizes the breakdown of our unaudited total wireless-related expenses for the nine months ended September 30, 2009 and 2008 and the percentage of each expense item to the total:

| | 2009 | % | 2008 | % | Increase (Decrease) Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Wireless Services: | | | | | | |
| Depreciation and amortization | Php9,836 | 26 | Php9,033 | 26 | Php803 | 9 |
| Rent | 7,782 | 20 | 6,844 | 19 | 938 | 14 |
| Compensation and employee benefits[1] | 4,629 | 12 | 3,820 | 11 | 809 | 21 |
| Repairs and maintenance | 3,283 | 9 | 3,255 | 9 | 28 | 1 |
| Selling and promotions | 3,197 | 8 | 3,067 | 9 | 130 | 4 |
| Cost of sales | 3,184 | 8 | 3,149 | 9 | 35 | 1 |
| Professional and other contracted services | 1,875 | 5 | 1,892 | 5 | (17) | (1) |
| Taxes and licenses | 1,313 | 3 | 1,424 | 4 | (111) | (8) |
| Asset impairment | 1,133 | 3 | 631 | 2 | 502 | 80 |
| Communication, training and travel | 723 | 2 | 801 | 2 | (78) | (10) |
| Insurance and security services | 549 | 2 | 532 | 2 | 17 | 3 |
| Amortization of intangible assets | 99 | – | 99 | – | – | – |
| Other expenses | 710 | 2 | 663 | 2 | 47 | 7 |
| Total | Php38,313 | 100 | Php35,210 | 100 | Php3,103 | 9 |

(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 Php803 million, or 9%, to Php9,836 million in the first nine months of 2009 principally due to increased depreciation on the growing asset base of 3G and broadband networks, and broadband customer-deployed equipment, partly offset by a decrease in the depreciable asset base of our 2G network.

Rent expenses increased by Php938 million, or 14%, to Php7,782 million on account of an increase in international and domestic circuits leased by Smart from PLDT, as well as higher site rental expenses. In the first nine months of 2009, we had 5,464 cell sites, 8,945 cellular/mobile broadband base stations and 2,006 fixed wireless broadband-enabled base stations, as compared with 5,256 cell sites, 7,633 cellular/mobile broadband base stations and 1,930 fixed wireless broadband-enabled base stations in the same period in 2008.

Compensation and employee benefits expenses increased by Php809 million, or 21%, to Php4,629 million primarily due to increased provision for LTIP, merit-based increases and employee upgrades and promotions coupled with increased provision for MRP and pension costs. The increase was partly offset by a decrease in employee headcount by 123 to 5,499 in the first nine months of 2009 as compared with 5,622 in the same period in 2008. For further discussion of our LTIP, please see *Note 25 – Share-based Payments and Employee Benefits* of the accompanying unaudited consolidated financial statements.

Repairs and maintenance expenses increased by Php28 million, or 1%, to Php3,283 million mainly due to an increase in network maintenance costs and electricity consumption partly offset by lower software maintenance expenses and fuel costs for power generation.

Selling and promotion expenses increased by Php130 million, or 4%, to Php3,197 million primarily due to higher advertising, promotional campaigns and public relations expenses.

Cost of sales increased by Php35 million, or 1%, to Php3,184 million primarily due to higher sales volume of broadband data modems in the first nine months of 2009, partly offset by the lower sales volume of cellular phonekits and SIM-packs.

Professional and other contracted services decreased by Php17 million, or 1%, to Php1,875 million primarily due to lower consultancy, technical and contracted service fees.

Taxes and licenses decreased by Php111 million, or 8%, to Php1,313 million primarily due to lower business-related license fees.

Asset impairment increased by Php502 million, or 80%, to Php1,133 million mainly due to higher provision for doubtful accounts, higher impairment on investment, higher provision for obsolescence of slow-moving handsets and WiFi routers, and higher impairment loss on fixed assets of Piltel.

Communication, training and travel expenses decreased by Php78 million, or 10%, to Php723 million primarily due to lower travel, fuel and hauling expenses incurred in the first nine months of 2009.

Insurance and security services increased by Php17 million, or 3%, to Php549 million primarily due to higher security expense.

Other expenses increased by Php47 million, or 7%, to Php710 million primarily due to higher various business and wireless operational-related expenses.

***Other Income (Expenses)***

The following table summarizes the breakdown of our unaudited total wireless-related other income (expenses) for the nine months ended September 30, 2009 and 2008:

| | | | Change | |
|---|---|---|---|---|
| | **2009** | **2008** | **Amount** | **%** |
| | | **(in millions)** | | |
| Other Income (Expenses): | | | | |
| Gains (losses) on derivative financial instruments – net | Php1,166 | (Php158) | Php1,324 | 838 |
| Interest income | 976 | 976 | – | – |
| Equity share in net earnings (losses) of associates and joint ventures | 277 | (79) | 356 | 451 |
| Foreign exchange gains (losses) – net | 118 | (1,942) | 2,060 | 106 |
| Financing costs – net | (1,938) | (1,547) | (391) | 25 |
| Others | 1,403 | 197 | 1,206 | 612 |
| Total | Php2,002 | (Php2,553) | Php4,555 | 178 |

Our wireless business segment generated other income – net of Php2,002 million in the first nine months of 2009, an improvement of Php4,555 million, or 178%, from other expenses – net of Php2,553 million in the same period in 2008 primarily due to the combined effects of the following: (1) net foreign exchange gains of Php118 million in the first nine months of 2009 as against net losses on foreign exchange revaluation of Php1,942 million in the same period in 2008 mainly due to the appreciation of the Philippine peso to the U.S. dollar in the first nine months of 2009; (2) net gains on derivative financial instruments of Php1,166 million mainly due to a gain in the mark-to-market valuation of Php1,170 million relating to the derivative option of the exchangeable note purchased as part of the Meralco share acquisition by Piltel; (3) increase in other income by Php1,206 million mainly due to Smart's tax adjustments in 2008; (4) increase in equity share in net earnings (losses) of associates and joint ventures mainly from share in net earnings of Meralco of Php361 million from July 14, 2009 to September 30, 2009; and (5) higher net financing costs by Php391 million primarily due to higher interest on loans and other related items – net on account of Smart's higher average loan balances, foreign exchange rate, interest rate and premium on debt securities.

### *Provision for Income Tax*

Provision for income tax decreased by Php1,040 million, or 9%, to Php10,299 million in the first nine months of 2009 from Php11,339 million in the same period in 2008. In the first nine months of 2009, the effective tax rate for our wireless business was 28% as compared with 35% in the same period in 2008 mainly due to the reduction in the regular corporate income tax rate from 35% to 30% beginning in January 2009 and availment of OSD in the computation of regular corporate income tax.

### *Net Income*

Our wireless business segment recorded a net income of Php25,858 million in the first nine months of 2009, an increase of Php4,667 million, or 22%, from Php21,191 million recorded in the same period in 2008 on account of higher other income – net by Php4,555 million, a Php2,398 million increase in wireless service revenues, and lower provision for income tax by Php1,040 million, partially offset by an increase in wireless-related expenses of Php3,103 million.

## Fixed Line

### *Revenues*

Revenues generated from our fixed line business amounted to Php38,388 million in the first nine months of 2009, an increase of Php1,440 million, or 4%, from Php36,948 million in the same period in 2008. The following table summarizes our unaudited total revenues from our fixed line business for the nine months ended September 30, 2009 and 2008 by service segment:

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | **2009** | **%** | **2008** | **%** | **Amount** | **%** |
| | | | **(in millions)** | | | |
| Fixed Line Services: | | | | | | |
| Service Revenues: | | | | | | |
| Local exchange | Php11,739 | 31 | Php11,876 | 32 | (Php137) | (1) |
| International long distance | 4,768 | 12 | 5,437 | 15 | (669) | (12) |
| National long distance | 4,686 | 12 | 4,750 | 13 | (64) | (1) |
| Data and other network | 15,965 | 42 | 13,627 | 37 | 2,338 | 17 |
| Miscellaneous | 1,056 | 3 | 1,017 | 3 | 39 | 4 |
| | 38,214 | 100 | 36,707 | 99 | 1,507 | 4 |
| Non-Service Revenues: | | | | | | |
| Sale of computers | 174 | – | 241 | 1 | (67) | (28) |
| Total Fixed Line Revenues | Php38,388 | 100 | Php36,948 | 100 | Php1,440 | 4 |

### *Service Revenues*

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php1,507 million, or 4%, to Php38,214 million in the first nine months of 2009 from Php36,707 million in the same period in 2008 primarily due to an increase in revenues from our data and other network services as a result of higher revenues contributed by our DSL and diginet services, and miscellaneous services, partially offset by the decrease in revenues from our international long distance, local exchange and national long distance services.

*Local Exchange Service*

The following table summarizes the key measures of our unaudited local exchange service business as at and for the nine months ended September 30, 2009 and 2008:

| | 2009 | 2008 | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| Total local exchange service revenues (in millions) | Php11,739 | Php11,876 | (Php137) | (1) |
| Number of fixed line subscribers | 1,866,892 | 1,773,091 | 93,801 | 5 |
| Postpaid | 1,658,985 | 1,510,739 | 148,246 | 10 |
| Prepaid | 207,907 | 262,352 | (54,445) | (21) |
| Number of fixed line employees[1] | 8,117 | 7,813 | 304 | 4 |
| Number of fixed line subscribers per employee | 230 | 227 | 3 | 1 |

[1] *Increase in headcount was primarily due to the acquisition of PLDT-Philcom and the transfer of Smart's corporate business group to PLDT.*

Revenues from our local exchange service decreased by Php137 million, or 1%, to Php11,739 million in the first nine months of 2009 from Php11,876 million in the same period in 2008 primarily owing to a decrease in average revenue per user on account of lower fixed charges due to bundling of voice and data services, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLDT Landline Plus*, increase in demand for bundled voice and data services and higher service connection charges. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 31% in the first nine months of 2009 as compared with 32% in the same period in 2008.

In March 2007, PLDT launched *PLDT Landline Plus*, a postpaid fixed wireless service where subscribers to the service benefit from a text-capable home phone which can be brought around the area where it was applied for. The monthly service fee is at Php600 with 600 local minutes free and Php1,000 with 1,000 local minutes free for residential and business subscribers, respectively. In March 2008, we introduced the prepaid counterpart of *PLDT Landline Plus*. As at September 30, 2009, there were a total of 201,898 active *PLDT Landline Plus* subscribers, of which 138,246 and 63,652 were postpaid and prepaid subscribers, respectively, whereas there were a total of 132,391 active *PLDT Landline Plus* subscribers as at September 30, 2008, of which 65,168 and 67,223 were postpaid and prepaid subscribers, respectively.

*International Long Distance Service*

The following table shows our unaudited international long distance service revenues and call volumes for the nine months ended September 30, 2009 and 2008:

| | 2009 | 2008 | Decrease Amount | % |
|---|---|---|---|---|
| Total international long distance service revenues (in millions) | Php4,768 | Php5,437 | (Php669) | (12) |
| Inbound | 3,964 | 4,392 | (428) | (10) |
| Outbound | 804 | 1,045 | (241) | (23) |
| | | | | |
| International call volumes (in million minutes, except call ratio) | 1,407 | 1,495 | (88) | (6) |
| Inbound | 1,253 | 1,314 | (61) | (5) |
| Outbound | 154 | 181 | (27) | (15) |
| Inbound-outbound call ratio | 8.1:1 | 7.3:1 | – | – |

Our total international long distance service revenues decreased by Php669 million, or 12%, to Php4,768 million in the first nine months of 2009 from Php5,437 million in the same period in 2008 primarily due to a decrease in inbound and outbound call volumes on account of cellular substitution and the availability of alternative economical modes of communications, such as email, text messaging and/or VoIP calls with lower international calling rates, among others, partially offset by the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar in the first nine months of 2009. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 12% in the first nine months of 2009 from 15% in the same period in 2008.

Our revenues from inbound international long distance service decreased by Php428 million, or 10%, to Php3,964 million in the first nine months of 2009 from Php4,392 million in the same period in 2008 due to a decline in inbound traffic volume by 61 million minutes to 1,253 million minutes in the first nine months of 2009 with more traffic terminating to cellular operators where the net revenue retained by us is lower. The decreasing effect was partially offset by the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar which increased our inbound international long distance revenues, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php241 million, or 23%, to Php804 million in the first nine months of 2009 from Php1,045 million in the same period in 2008 primarily due to the decline in outbound international call volumes partially offset by the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar from Php43.22 in the first nine months of 2008 to Php47.93 in the same period in 2009, resulting in an increase in the average billing rates to Php47.92 in the first nine months of 2009 from Php42.60 in the same period in 2008.

*National Long Distance Service*

The following table shows our unaudited national long distance service revenues and call volumes for the nine months ended September 30, 2009 and 2008:

| | | | **Decrease** | |
|---|---|---|---|---|
| | **2009** | **2008** | **Amount** | **%** |
| Total national long distance service revenues (in millions) | Php4,686 | Php4,750 | (Php64) | (1) |
| National long distance call volumes (in million minutes) | 1,453 | 1,497 | (44) | (3) |

Our national long distance service revenues decreased by Php64 million, or 1%, to Php4,686 million in the first nine months of 2009 from Php4,750 million in the same period in 2008 primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute for our national long distance services due to ceasing certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues decreased to 12% in the first nine months of 2009 from 13% in the same period in 2008.

*Data and Other Network Services*

The following table shows information of our unaudited data and other network service revenues for the nine months ended September 30, 2009 and 2008:

| | | | **Increase** | |
|---|---|---|---|---|
| | **2009** | **2008** | **Amount** | **%** |
| Data and other network service revenues (in millions) | Php15,965 | Php13,627 | Php2,338 | 17 |
| Number of *DSL* broadband subscribers | 548,313 | 388,015 | 160,298 | 41 |

In the first nine months of 2009, our data and other network services posted revenues of Php15,965 million, an increase of Php2,338 million, or 17%, as compared with Php13,627 million in the same period in 2008 primarily due to increases in leased lines, IP-based and packet-based data services, particularly global data connectivity and *PLDT DSL*, partially offset by a decrease in *PLDT Vibe* service subscribers. The percentage contribution of this service segment to our fixed line service revenues increased to 42% in the first nine months of 2009 from 37% in the same period in 2008.

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

DSL contributed revenues of Php5,099 million in the first nine months of 2009, an increase of Php1,209 million, or 31%, as compared with Php3,890 million in the same period in 2008 primarily due to an increase in the number of subscribers, which was partially offset by lower ARPU as a result of launching of lower-priced promotional plans. DSL subscribers increased by 41% to 548,313 subscribers in the first nine months of 2009 from 388,015 subscribers in the same period in 2008.

We also offer *PLDT WeRoam*, a wireless broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies). This service had 16,477 subscribers in the first nine months of 2009 as compared with 15,585 subscribers in the same period in 2008 and contributed Php157 million to our data service revenues in the first nine months of 2009, increasing by Php12 million, or 8%, as compared with Php145 million in the same period in 2008.

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

The steady demand for dedicated international connectivity or private networking from the corporate market, offshore and outsourcing industries, and semiconductor market to use PLDT's extensive international alliances and domestic data offerings – Fibernet, Arcstar, other Global Service Providers such as BT-Infonet, Orange Business and Verizon. ISDN has been increasingly popular with corporate customers, especially the Primary Rate Interface type, I-Gate. International data services increased by Php844 million, or 27%, to Php3,923 million in the first nine months of 2009 from Php3,079 million in the same period in 2008 primarily due to higher I-Gate revenues by Php606 million, or 97%, to Php1,231 million in the first nine months of 2009 from Php625 million in the same period in 2008 as a result of Smart's higher usage and monthly recurring charges.

Domestic data services contributed Php12,042 million in the first nine months of 2009, an increase of Php1,494 million, or 14%, as compared with Php10,548 million in the same period in 2008. Growth was driven by the continued increase in DSL subscribers, and IP-VPN and Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers, as demand from the offshoring and outsourcing segment continues to increase. *Shops.Work Unplugged* or SWUP, our wireless VPN service that powers wireless point-of-sale terminals and a growing number of off-site bank ATMs, also sustained its penetration into the market with the introduction of its offering where one terminal can now accept all ATM debit and credit cards. This service is expected to contribute significantly to PLDT data service revenue in the near-term.

Diginet, our domestic private leased line service, has been providing Smart's increasing fiber optic and leased line data requirements. Diginet revenues increased by Php214 million, or 4%, to

Php5,682 million in the first nine months of 2009 from Php5,468 million in the same period in 2008 mainly due to an increase in Smart's DFON rental to Php4,405 million in the first nine months of 2009 from Php4,269 million in the same period in 2008.

*Miscellaneous*

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. In the first nine months of 2009, these service revenues increased by Php39 million, or 4%, to Php1,056 million from Php1,017 million in the same period in 2008 mainly due to an increase in facilities management fees and rental income owing to higher co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of the first nine months of 2009 and 2008.

***Non-service Revenues***

Non-service revenues decreased by Php67 million, or 28%, to Php174 million in the first nine months of 2009 from Php241 million in the same period in 2008 primarily due to lower computer sales and a decrease in the cost of fixed wireless service handsets.

***Expenses***

Expenses related to our fixed line business totaled Php28,215 million in the first nine months of 2009, an increase of Php2,756 million, or 11%, as compared with Php25,459 million in the same period in 2008. The increase was primarily due to higher asset impairment, compensation and employee benefits, rent, and selling and promotions, which were partly offset by decreases in repairs and maintenance, depreciation and amortization, cost of sales, and other business-related expenses. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 73% and 69% in the first nine months of 2009 and 2008, respectively.

The following table shows the breakdown of our unaudited total fixed line-related expenses for the nine months ended September 30, 2009 and 2008 and the percentage of each expense item to the total:

| | | | | | **Increase (Decrease)** | |
|---|---|---|---|---|---|---|
| | **2009** | **%** | **2008** | **%** | **Amount** | **%** |
| | | | **(in millions)** | | | |
| Fixed Line Services: | | | | | | |
| Depreciation and amortization | Php8,777 | 31 | Php9,009 | 35 | (Php232) | (3) |
| Compensation and employee benefits[1] | 7,683 | 27 | 6,352 | 25 | 1,331 | 21 |
| Repairs and maintenance | 2,984 | 11 | 3,335 | 13 | (351) | (11) |
| Rent | 2,169 | 8 | 1,484 | 6 | 685 | 46 |
| Asset impairment | 2,060 | 7 | 660 | 3 | 1,400 | 212 |
| Professional and other contracted services | 1,582 | 6 | 1,528 | 6 | 54 | 4 |
| Selling and promotions | 990 | 3 | 883 | 3 | 107 | 12 |
| Taxes and licenses | 600 | 2 | 578 | 2 | 22 | 4 |
| Communication, training and travel | 451 | 2 | 448 | 2 | 3 | 1 |
| Insurance and security services | 384 | 1 | 388 | 2 | (4) | (1) |
| Cost of sales | 197 | 1 | 311 | 1 | (114) | (37) |
| Other expenses | 338 | 1 | 483 | 2 | (145) | (30) |
| Total | Php28,215 | 100 | Php25,459 | 100 | Php2,756 | 11 |

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

Depreciation and amortization charges decreased by Php232 million, or 3%, to Php8,777 million due to a lower depreciable asset base in the first nine months of 2009 as compared with the same period in 2008.

Compensation and employee benefits expenses increased by Php1,331 million, or 21%, to Php7,683 million primarily due to increased provisions for LTIP and pension and higher salaries and employee benefits due to an increase in headcount resulting from the acquisition of PLDT-Philcom and the transfer of Smart’s corporate business group to PLDT partially offset by lower provision for MRP costs. For further discussion on our LTIP and pension benefits, please see *Note 25 – Share-based Payments and Employee Benefits* of the accompanying unaudited consolidated financial statements.

Repairs and maintenance expenses decreased by Php351 million, or 11%, to Php2,984 million primarily due to lower maintenance costs of IT hardware and foreign cable and wire facilities as less operating and maintenance-related restorations were incurred in the first nine months of 2009 as compared with the same period in 2008.

Rent expenses increased by Php685 million, or 46%, to Php2,169 million due to an increase in pole rental charges and international leased circuit charges, partially offset by a decrease in site rental charges.

Asset impairment increased by Php1,400 million, or 212%, to Php2,060 million mainly due to impairment loss on prepaid transponder lease to ProtoStar and provision for uncollectible customer receivables.

Professional and other contracted services increased by Php54 million, or 4%, to Php1,582 million primarily due to higher technical and contracted service fees for customer interaction solutions outsourcing project services.

Selling and promotion expenses increased by Php107 million, or 12%, to Php990 million primarily due to higher spending on marketing and promotion expenses as a result of more major advertising campaigns launched in the first nine months of 2009.

Taxes and licenses increased by Php22 million, or 4%, to Php600 million as a result of higher business-related taxes.

Communication, training and travel expenses increased by Php3 million, or 1%, to Php451 million due to increases in foreign and local training and travel expenses and higher mailing and courier and communication charges.

Insurance and security services decreased by Php4 million, or 1%, to Php384 million primarily due to lower insurance and bond premiums.

Cost of sales decreased by Php114 million, or 37%, to Php197 million due to lower computer sales and a decrease in the cost of fixed wireless service handsets.

Other expenses decreased by Php145 million, or 30%, to Php338 million due to lower various business and fixed line operational-related expenses.

### *Other Expenses*

The following table summarizes the breakdown of our unaudited total fixed line-related other expenses for the nine months ended September 30, 2009 and 2008:

| | 2009 | 2008 | Change Amount | Change % |
|---|---|---|---|---|
| | (in millions) | | | |
| Other Income (Expenses): | | | | |
| Interest income | Php318 | Php322 | (Php4) | (1) |
| Foreign exchange gains (losses) – net | 102 | (4,212) | 4,314 | 102 |
| Equity share in net losses of associates and joint ventures | (72) | – | (72) | (100) |
| Gains (losses) on derivative financial instruments – net | (1,705) | 3,059 | (4,764) | (156) |
| Financing costs – net | (2,710) | (3,123) | 413 | (13) |
| Others | 442 | 1,410 | (968) | (69) |
| Total | (Php3,625) | (Php2,544) | (Php1,081) | 42 |

Our fixed line business segment generated other expenses – net of Php3,625 million in the first nine months of 2009, an increase of Php1,081 million, or 42%, as compared with Php2,544 million in the same period in 2008. The change was due to the combined effects of the following: (i) net losses on derivative financial instruments of Php1,705 million relating to the loss in the mark-to-market valuation of foreign currency swaps contracts in the first nine months of 2009 compared to net gains on derivatives financial instruments of Php3,059 million in the same period in 2008 due to the impact of the de-designation of foreign currency swaps and option contracts in the first nine months of 2008; (ii) decrease in other income by Php968 million primarily due to lower gain on sale of fixed assets; (iii) net foreign exchange gains of Php102 million on account of gain on foreign exchange revaluation of net foreign currency-denominated liabilities owing to the appreciation of the Philippine peso to the U.S. dollar in the first nine months of 2009 to Php47.42 in September 30, 2009 from Php47.65 in December 31, 2008 as against net foreign exchange losses of Php4,212 million due to the revaluation of net foreign currency-denominated liabilities on account of the depreciation of the Philippine peso to the U.S. dollar from Php41.41 in December 31, 2007 to Php47.26 on September 30, 2008; and (iv) a decrease in net financing costs by Php413 million due to lower interest on loans and other related items.

### *Provision for Income Tax*

Provision for income tax amounted to Php1,829 million, a decrease of Php1,446 million, or 44%, in the first nine months of 2009 as compared with Php3,275 million in the same period in 2008 primarily due to lower taxable income and the reduction in the regular corporate income tax rate from 35% to 30% beginning in January 2009.

### *Net Income*

In the first nine months of 2009, our fixed line business segment contributed a net income of Php4,719 million, a decrease of Php951 million, or 17%, as compared with Php5,670 million in the same period in 2008 mainly as a result of increases in fixed line-related expenses by Php2,756 million and other expenses – net by Php1,081 million partially offset by an increase in fixed line service revenues by Php1,507 million and a lower provision for income tax by Php1,446 million.

## Information and Communications Technology

### *Revenues*

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

In the first nine months of 2009, our ICT business generated revenues of Php8,386 million, an increase of Php513 million, or 7%, as compared with Php7,873 million in the same period in 2008. This increase was primarily due to the continued growth of our data center, the steady revenue contribution of our internet and online gaming businesses partially offset by decreases in the revenue contribution of our knowledge processing solutions and customer interaction solutions businesses.

The following table summarizes our unaudited total revenues from our ICT business for the nine months ended September 30, 2009 and 2008 by service segment:

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | **2009** | **%** | **2008** | **%** | **Amount** | **%** |
| | | | **(in millions)** | | | |
| Service Revenues: | | | | | | |
| Knowledge processing solutions | Php3,837 | 46 | Php3,890 | 49 | (Php53) | (1) |
| Customer interaction solutions | 2,474 | 29 | 2,494 | 32 | (20) | (1) |
| Internet and online gaming | 830 | 10 | 698 | 9 | 132 | 19 |
| Data center and others | 816 | 10 | 519 | 7 | 297 | 57 |
| | 7,957 | 95 | 7,601 | 97 | 356 | 5 |
| Non-Service Revenues: | | | | | | |
| Point-product sales | 429 | 5 | 272 | 3 | 157 | 58 |
| Total ICT Revenues | Php8,386 | 100 | Php7,873 | 100 | Php513 | 7 |

### *Service Revenues*

Service revenues generated by our ICT business segment amounted to Php7,957 million in the first nine months of 2009, an increase of Php356 million, or 5%, as compared with Php7,601 million in the same period in 2008 primarily as a result of an increase in co-location revenues and disaster recovery revenues from our data center business complemented by the growth in online gaming business and steady growth of our internet business. The favorable foreign exchange rate in the first nine months of 2009 complemented the increase in ICT business revenues. This was partially offset by the decline in revenues from our knowledge processing solutions and customer interaction solutions. As a percentage of our total ICT business revenues, service revenues decreased to 95% in the first nine months of 2009 from 97% in the same period in 2008.

#### *Knowledge Processing Solutions*

We provide our knowledge processing solutions business primarily through the SPi Group. Knowledge processing solutions business contributed revenues of Php3,837 million in the first nine months of 2009, a decrease of Php53 million, or 1%, as compared with Php3,890 million in the same period in 2008 primarily due to lower revenues contributed by SPi’s healthcare and litigation services. Knowledge processing solutions accounted for 48% and 51% of total service revenues of our ICT business in the first nine months of 2009 and 2008, respectively.

*Customer Interaction Solutions*

We provide our customer interaction solutions primarily through *ePLDT Ventus*. Revenues relating to our customer interaction solutions business decreased by Php20 million, or 1%, to Php2,474 million in the first nine months of 2009 from Php2,494 million in the same period in 2008 primarily due to the decrease in international dollar-denominated revenues offset by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar and an increase in domestic revenues. In total, we own and operate approximately 7,170 seats with 4,880 customer service representatives, or CSRs, in the first nine months of 2009 as compared with approximately 6,450 seats with 5,370 CSRs in the same period in 2008. As at September 30, 2009 and 2008, *ePLDT Ventus* had six and seven customer interaction solution sites, respectively. Customer interaction solution revenues accounted for 31% and 33% of total service revenues of our ICT business in the the first nine months of 2009 and 2008, respectively.

*Internet and Online Gaming*

Revenues from our internet and online gaming businesses increased by Php132 million, or 19%, to Php830 million in the first nine months of 2009 from Php698 million in the same period in 2008 primarily due to an increase in the revenue contribution of Level Up! resulting from its new online games and Infocom's revenues from handling PLDT's DSL-related nationwide technical helpdesk operations. Our internet and online gaming business revenues accounted for 11% and 9% of total service revenues of our ICT business in the first nine months of 2009 and 2008, respectively.

*Data Center and Others*

ePLDT operates an internet data center under the brand name *Vitro*™ which provides co-location or rental services, server hosting, data disaster recovery and business continuity services, intrusion detection, security services such as firewalls and managed firewalls and other data services. In the first nine months of 2009, our data center contributed revenues of Php816 million, an increase of Php297 million, or 57%, from Php519 million in the same period in 2008 primarily due to an increase in co-location or rental revenues and server hosting. Our data center revenues accounted for 10% and 7% of total service revenues of our ICT business in the first nine months of 2009 and 2008, respectively.

***Non-Service Revenues***

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In the first nine months of 2009, non-service revenues generated by our ICT business increased by Php157 million, or 58%, to Php429 million from Php272 million in the same period in 2008 primarily due to higher revenues from sales of software licenses and hardware products.

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

### *Expenses*

Expenses associated with our ICT business totaled Php8,300 million in the first nine months of 2009, an increase of Php319 million, or 4%, as compared with Php7,981 million in the same period in 2008 primarily due to increases in compensation and employee benefits, cost of sales and repairs and maintenance, partially offset by lower selling and promotions expenses, professional and other contracted services, depreciation and amortization, and communication, training and travel. As a percentage of our total ICT revenues, expenses related to our ICT business accounted for 99% and 101% in the first nine months of 2009 and 2008, respectively.

The following table shows the breakdown of our unaudited total ICT-related expenses for the nine months ended September 30, 2009 and 2008 and the percentage of each expense item to the total:

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | **2009** | **%** | **2008** | **%** | **Amount** | **%** |
| | | | **(in millions)** | | | |
| ICT Services: | | | | | | |
| Compensation and employee benefits[1] | Php4,848 | 58 | Php4,523 | 57 | Php325 | 7 |
| Depreciation and amortization | 570 | 7 | 624 | 8 | (54) | (9) |
| Rent | 541 | 7 | 529 | 7 | 12 | 2 |
| Cost of sales | 529 | 6 | 360 | 4 | 169 | 47 |
| Repairs and maintenance | 489 | 6 | 429 | 5 | 60 | 14 |
| Professional and other contracted services | 427 | 5 | 484 | 6 | (57) | (12) |
| Communication, training and travel | 351 | 4 | 403 | 5 | (52) | (13) |
| Amortization of intangible assets | 182 | 2 | 175 | 2 | 7 | 4 |
| Taxes and licenses | 81 | 1 | 71 | 1 | 10 | 14 |
| Selling and promotions | 79 | 1 | 167 | 2 | (88) | (53) |
| Insurance and security services | 48 | 1 | 42 | 1 | 6 | 14 |
| Asset impairment | 28 | – | 4 | – | 24 | 600 |
| Other expenses | 127 | 2 | 170 | 2 | (43) | (25) |
| Total | Php8,300 | 100 | Php7,981 | 100 | Php319 | 4 |

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

Compensation and employee benefits increased by Php325 million, or 7%, to Php4,848 million mainly due to basic pay increases as a result of salary rate adjustments, as well as an increase in provisions for LTIP and MRP costs partially offset by the decrease in ePLDT and subsidiaries' employee headcount by 383, or 2%, to 15,832 in the first nine months of 2009 as compared with 16,215 in the same period in 2008.

Depreciation and amortization charges decreased by Php54 million, or 9%, to Php570 million primarily due to a decrease in the depreciable asset base of our knowledge processing solutions business on account of lower capital expenditures in the first nine months of 2009 as compared with the same period in 2008.

Rent expenses increased by Php12 million, or 2%, to Php541 million primarily due to higher leased circuit rentals for data center services.

Cost of sales increased by Php169 million, or 47%, to Php529 million primarily due to higher sales of software licenses and hardware products.

Repairs and maintenance expenses increased by Php60 million, or 14%, to Php489 million primarily due to higher electricity charges, IT software and hardware repairs and maintenance costs as a result of data center expansion.

Professional and other contracted services decreased by Php57 million, or 12%, to Php427 million primarily due to lower technical service and subcontracted service fees incurred by the SPi Group related to its knowledge processing solutions business.

Communication, training and travel expenses decreased by Php52 million, or 13%, to Php351 million primarily due to lower local and foreign training and travel expenses incurred by our customer interaction solutions and knowledge processing solutions businesses.

Amortization of intangible assets increased by Php7 million, or 4%, to Php182 million due to higher foreign exchange rate in the first nine months of 2009. Please see *Note 14 – Goodwill and Intangible Assets* of the accompanying unaudited consolidated financial statements for further discussion.

Taxes and licenses increased by Php10 million, or 14%, to Php81 million primarily due to higher business-related taxes.

Selling and promotion expenses decreased by Php88 million, or 53%, to Php79 million mainly due to the SPi Group's lower commission, advertising and marketing expenses.

Insurance and security services increased by Php6 million, or 14%, to Php48 million primarily due to higher insurance and bond premiums.

Asset impairment increased by Php24 million, or 600%, to Php28 million primarily due to higher provision for uncollectible customer receivables.

Other expenses decreased by Php43 million, or 25%, to Php127 million mainly due to lower various business and ICT operational-related costs.

***Other Income***

The following table summarizes the breakdown of our unaudited total ICT-related other income for the nine months ended September 30, 2009 and 2008:

| | | | Change | |
|---|---|---|---|---|
| | **2009** | **2008** | **Amount** | **%** |
| | | **(in millions)** | | |
| Other Income (Expenses): | | | | |
| Equity share in net earnings of associates | Php106 | Php5 | Php101 | 2,020 |
| Interest income | 20 | 16 | 4 | 25 |
| Foreign exchange gains – net | 10 | 173 | (163) | (94) |
| Gains (losses) on derivative financial instruments – net | 5 | (31) | 36 | 116 |
| Financing costs – net | (128) | (129) | 1 | (1) |
| Others | 228 | 26 | 202 | 777 |
| Total | Php241 | Php60 | Php181 | 302 |

Our ICT business segment generated other income – net of Php241 million in the first nine months of 2009, an increase of Php181 million, or 302%, from Php60 million in the same period in 2008 primarily due to an increase in other income by Php202 million on account of de-recognition of liabilites, equity share in net earnings of associates and joint vetures by Php101 million and net gains on forward foreign exchange contracts by Php36 million partially offset by lower net foreign exchange gains by Php163 million due to the revaluation of net foreign currency-denominated assets as a result of the lower effect of the appreciation of the Philippine peso to the U.S. dollar in the first nine months of

2009.

***Provision for (Benefit from) Income Tax***

Provision for income tax increased by Php164 million to Php162 million in the first nine months of 2009 as compared with a Php2 million benefit from income tax in the same period in 2008 primarily due to a higher taxable income and expiration of tax incentives.

***Net Income***

In the first nine months of 2009, our ICT business segment registered a net income of Php165 million, an increase of Php211 million, or 459%, from a net loss of Php46 million in the same period in 2008 mainly as a result of Php513 million increase in ICT revenues and other income – net of Php181 million partially offset by Php319 million increase in ICT-related expenses and higher provision for income tax by Php164 million.

## Liquidity and Capital Resources

The following table shows our unaudited consolidated cash flows for the nine months ended September 30, 2009 and 2008 as well as our consolidated capitalization and other consolidated selected financial data as at September 30, 2009 (unaudited) and December 31, 2008 (audited):

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2009** | **2008** |
| **(in millions)** | | |
| **Cash Flows** | | |
| Net cash provided by operating activities | Php56,326 | Php60,076 |
| Net cash used in investing activities | 36,157 | 6,991 |
| *Capital expenditures* | *18,064* | *16,841* |
| Net cash used in financing activities | 26,797 | 48,514 |
| Net increase (decrease) in cash and cash equivalents | (6,747) | 5,103 |

| | **September 30, 2009** | **December 31, 2008** |
|---|---|---|
| **(in millions)** | | |
| **Capitalization** | | |
| Long-term portion of interest-bearing financial liabilities – net of current portion: | | |
| Long-term debt | Php80,193 | Php58,899 |
| Obligations under finance lease | 14 | 11 |
| | 80,207 | 58,910 |
| Current portion of interest-bearing financial liabilities: | | |
| Notes payable | 2,284 | 553 |
| Long-term debt maturing within one year | 11,132 | 14,459 |
| Obligations under finance lease maturing within one year | 53 | 59 |
| Preferred stock subject to mandatory redemption | 7 | 9 |
| | 13,476 | 15,080 |
| Total interest-bearing financial liabilities | 93,683 | 73,990 |
| Total equity attributable to equity holders of PLDT | 89,249 | 105,531 |
| | Php182,932 | Php179,521 |
| **Other Selected Financial Data** | | |
| Total assets | Php266,531 | Php252,558 |
| Property, plant and equipment – net | 159,452 | 160,326 |
| Cash and cash equivalents | 26,937 | 33,684 |
| Short-term investments | 1,586 | 6,670 |

As at September 30, 2009, our consolidated cash and cash equivalents and short-term investments totaled Php28,523 million. Principal sources of consolidated cash and cash equivalents in the first nine months of 2009 were cash flows from operating activities amounting to Php56,326 million and drawings mainly from PLDT's and Smart's debt facilities, including notes payable, aggregating Php33,989 million and net proceeds from maturity of short-term investments of Php5,195 million. These funds were used principally for: (1) dividend payments of Php39,194 million; (2) payments for purchase of investments in subsidiaries and associates of Php25,642 million which includes the acquisition of Meralco shares of Php18,070 million and settlement of the tender offer to Piltel's non-controlling interests of Php6,618 million; (3) capital outlays of Php18,064 million; (4) total debt principal and interest payments of Php15,200 million and Php3,748 million, respectively; (5) payment for exchangeable note issued by First Pacific Utilities Corporation, or FPUC, to Piltel (including derivative option) of Php2 billion; and (6) share buyback of Php1,729 million.

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, including notes payable, aggregating Php8,978 million. These funds were used principally for dividend payments of Php37,044 million, capital outlays of Php16,841 million, total debt principal payments of Php9,703 million, share buyback of Php4,493 million and interest payments of Php3,947 million.

***Operating Activities***

Our consolidated net cash flows from operating activities in the first nine months of 2009 decreased by Php3,750 million, or 6%, to Php56,326 million from Php60,076 million in the same period in 2008 primarily due to higher working capital requirements with advances to the beneficial trust fund, lower collection of accounts receivable and higher level of settlement of various current liabilities.

A growing portion of our consolidated cash flow from operating activities is generated by our wireless service business, which accounted for 61% of our total service revenues in each of the first nine months of 2009 and 2008. Revenues from our fixed line and information and communications technology services accounted for 32% and 7%, respectively, of our total service revenues in each the first nine months of 2009 and 2008.

Cash flows from operating activities of our wireless business amounted to Php44,026 million in the first nine months of 2009, an increase of Php11,272 million, or 34%, as compared with Php32,754 million in the same period in 2008. The increase in our wireless business segment's cash flows from operating activities was a result of higher collection of receivables, lower prepayments and settlement of various payables in the first nine months of 2009 compared with the same period in 2008. Cash flows from operating activities of our ICT business remained flat at Php1,156 million in each of the first nine months of 2009 and 2008. On the other hand, cash flows from operating activities of our fixed line business decreased by Php15,058 million, or 57%, to Php11,141 million in the first nine months of 2009 from Php26,199 million in the same period in 2008. The decrease was primarily due to advances to the beneficial trust fund, higher settlement of various liabilities and lower collection of accounts receivable.

***Investing Activities***

Consolidated net cash used in investing activities amounted to Php36,157 million in the first nine months of 2009, an increase of Php29,166 million, or 417%, as compared with Php6,991 million in the same period in 2008 primarily due to the combined effects of the following: (1) higher payments for investments in subsidiaries and associates by Php25,245 million mainly due to the acquisition of

Meralco shares amounting to Php18,070 million and the settlement of the tender offer to Piltel's non-controlling shareholders of Php6,618 million; (2) lower net proceeds from the maturity of short-term investments by Php3,934 million; (3) increase in capital expenditures by Php1,223 million in the first nine months of 2009; and (4) higher net proceeds from the maturity of investments in debt securities by Php1,065 million, mainly from net redemption of various treasury bonds of Php2,502 million partially offset by the payment of Php1,437 million for the purchase of an exchangeable note with face value of Php2 billion issued by FPUC to Piltel as part of the Meralco shares acquisition transaction.

Our consolidated capital expenditures in the first nine months of 2009 totaled Php18,064 million, an increase of Php1,223 million, or 7%, as compared with Php16,841 million in the same period in 2008 primarily due to an increase in PLDT's capital spending. PLDT's capital spending of Php7,015 million in the first nine months of 2009 was principally used to finance the expansion and upgrade of its submarine cable facilities, fixed line data and IP-based network services and outside plant rehabilitation. Smart's capital spending of Php10,552 million in the first nine months of 2009 was used primarily to expand its HSPA 850 and broadband networks, and to further upgrade its core, access and transmission network facilities. ePLDT and its subsidiaries' capital spending of Php425 million in the first nine months of 2009 was primarily used to fund the continued expansion of its customer interaction solutions facilities. The balance represented other subsidiaries' capital spending.

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

In the Annual Stockholders' Meeting of Piltel held on June 30, 2009, its stockholders approved the acquisition by Piltel of 223 million shares in Meralco. On July 14, 2009, Piltel paid Php18.07 billion and exercised the exchange option for the approximately 22.2 million shares, which were the subject of the exchangeable note issued by FPUC that completed the acquisition of 223 million shares in Meralco. The market value of the exchangeable note, including the derivative option, was determined to be Php3,286 million as at July 14, 2009, thus the investment in 223 million shares in Meralco is initially recorded at Php21,356 million. The total gain recognized in the exercise of the exchange option amounted to Php1,286 million representing a mark-to-market gains of Php1,170 million and amortization of discount of Php116 million. Please see Other Information and *Note 10 – Investments in Associates and Joint Ventures* of the accompanying unaudited consolidated financial statements for further discussion.

In view of the change in Piltel's business direction, Smart's Board of Directors approved on June 19, 2009 a tender offer to acquire at Php8.50 per share, payable in cash and in full on August 12, 2009, from Piltel's non-controlling shareholders the remaining 840 million shares. These shares represent approximately 7.19% of the outstanding common stock of Piltel. Smart filed the Tender Offer Report with the Philippine Securities and Exchange Commission, or PSEC, and the Philippine Stock Exchange, or PSE, on June 23, 2009 pursuant to Section 19 of the Securities Regulation Code. The tender offer commenced on July 1, 2009 and ended on July 29, 2009, with approximately 93% of Piltel's non-controlling shares tendered, thereby increasing Smart's ownership to approximately 99.5% of the outstanding common stock of Piltel. The aggregate cost for the tender offer paid by Smart to non-controlling shareholders on August 12, 2009 amounted to Php6,618 million, from which Smart recognized an excess of acquisition cost over the carrying value of non-controlling interest acquired of Php5,479 million presented under "Equity" in our unaudited consolidated statements of financial position. Please see *Note 2 – Summary of Significant Accounting Policies* of the accompanying unaudited consolidated financial statements for further discussion.

Following the repayment by Smart in April 2006 of all its loan facilities that contained covenants restricting Smart's ability to pay dividends, redeem preferred shares, make distributions to

PLDT or otherwise provide funds to PLDT or any associate, Smart is no longer required to seek consent from its lenders for such purposes. In the first nine months of 2009 and 2008, dividends declared by Smart to PLDT amounted to Php20,440 million and Php24,200 million, respectively. Of the Php20,440 million declared in 2009, Php14,800 million and Php5,640 million were paid on April 13, 2009 and September 11, 2009, respectively, while on the Php24,200 million declared in 2008, Php10,000 million, Php7,200 and Php7,000 million were paid on April 11, 2008, September 3, 2008 and September 18, 2008, respectively.

In the first nine months of 2009, Piltel paid cash dividends to common shareholders amounting to Php6,077 million, of which Php5,640 million was paid to Smart. In the first nine months of 2008, Piltel paid cash dividends to common shareholders amounting to Php5,061 million, of which Php4,664 million was paid to Smart.

***Financing Activities***

On a consolidated basis, net cash used in financing activities amounted to Php26,797 million in the first nine months of 2009, a decrease of Php21,717 million, or 45%, as compared with Php48,514 million in the same period in 2008. The decrease largely resulted from the combined effects of the following: (1) higher proceeds from the issuance of long-term debt and notes payable by Php25,011 million; (2) lower share buyback in 2009 by Php2,764 million; (3) higher net proceeds from capital expenditures under long-term financing by Php1,158 million; (4) lower settlement of finance lease obligation by Php428 million; (5) lower interest payments by Php199 million; (6) higher cash dividend payments by Php2,150 million; and (7) higher debt repayments by Php5,497 million.

*Debt Financing*

Additions to our consolidated debt for the nine months ended September 30, 2009 and 2008 totaled Php33,989 million and Php8,978 million, respectively, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements. Payments in respect of principal and interest of our total debt amounted to Php15,200 million and Php3,747 million, respectively, in the first nine months of 2009 and Php9,703 million and Php3,947 million, respectively, in the same period in 2008.

Our consolidated long-term debt increased by Php17,967 million, or 24%, to Php91,325 million in the first nine months of 2009, largely due to drawings from our term loan facilities, partially offset by debt amortizations and prepayments and the appreciation of the Philippine peso to the U.S. dollar in the first nine months of 2009 to Php47.42 in September 30, 2009 from Php47.65 in December 31, 2008. The debt levels of PLDT and Smart increased by 21% and 29% to Php46,983 million and Php43,887 million, respectively, in the first nine months of 2009 as compared with the levels as at December 31, 2008.

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

On February 20, 2009, Smart signed a Philippine Peso term loan facility with China Trust (Philippines) Commercial Bank Corporation to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on April 27, 2009. The facility is a five-year term loan payable in eight equal semi-annual installments starting on the eighteenth month from initial drawdown date. The first installment will commence on October 27, 2010 with final repayment on April 25, 2014. The amount of Php1,000 million (Php996 million, net of unamortized debt discount of Php4 million) remained outstanding as at September 30, 2009.

On March 6, 2009, PLDT signed a loan agreement with Banco de Oro Unibank, Inc. amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan will mature on April 17, 2014. The amount of Php2,500 million was fully drawn on April 17, 2009 and remained outstanding as at September 30, 2009.

On March 31, 2009, Level Up! secured a three-year loan facility with Asia United Bank amounting to Php8 million maturing on March 30, 2012. Principal is payable in twelve equal successive quarterly installment of Php673 thousand starting June 30, 2009 and every quarter thereafter. The loan is secured by the equipment where the proceeds of the loan were used. The amount of Php7 million remained outstanding as at September 30, 2009.

On April 23, 2009, PLDT signed the notes facility agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is comprised of a Php1,000 million Tranche A fixed rate note and a Php1,000 million Tranche B floating rate note, which were fully drawn on April 28, 2009 and remained outstanding as at September 30, 2009. Both tranches will mature on April 28, 2010.

On May 12, 2009, Smart signed a Philippine Peso term loan facility with Banco de Oro Unibank, Inc. amounting to Php1,500 million to finance capital expenditures. The facility is a three-year loan payable in full upon maturity. The amount of Php1,500 million (Php1,490 million, net of unamortized debt discount of Php10 million) was fully drawn on May 20, 2009 and remained outstanding as at September 30, 2009.

On May 14, 2009, Smart signed a Philippine Peso term loan facility with Asia United Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 3, 2009. The facility is payable over five years in eight equal semi-annual installments commencing on the eighteenth month from initial drawdown date with final repayment on July 3, 2014. The amount of Php1,000 (Php995 million, net of unamortized debt discount of Php5 million) remained outstanding as at September 30, 2009.

On May 14, 2009, Smart signed a US$50 million five-year term facility to finance the Phase 10 (Extension) GSM equipment and services contract with Finnish Export Credit, Plc guaranteed by Finnvera and awarded to Calyon as the Arranger. The facility was drawn on July 15, 2009. The loan is payable over five years in ten equal semi-annual payments. As at September 30, 2009, US$50 million (US$48 million, net of unamortized debt discount of US$2 million), or Php2,371 million (Php2,279 million, net of unamortized debt discount of Php92 million), remained outstanding.

On May 15, 2009, Smart signed a Philippine Peso term loan facility with Philippine National Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 2, 2009. The facility is a seven-year loan, payable in full on July 2, 2016. The amount of Php1,000 (Php995 million, net of unamortized debt discount of Php5 million) remained outstanding as at September 30, 2009.

On June 8, 2009, PLDT signed a loan agreement with Rizal Commercial Banking Corporation amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over seven years with an annual amortization of 1% on the fifth and sixth year from initial drawdown date and the balance payable on maturity date. The amount of Php2,500 million was fully drawn on September 28, 2009 and remained outstanding as at September 30, 2009.

On June 16, 2009, PLDT signed a loan agreement with Allied Banking Corporation amounting to Php1,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments. The amount of Php1,500 million was fully drawn on September 15, 2009 and remained outstanding as at September 30, 2009.

On June 29, 2009, PLDT signed a loan agreement with Insular Life Assurance Company, Ltd. amounting to Php500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan will mature on July 1, 2016. The amount of Php500 million was fully drawn on July 1, 2009 and remained outstanding as at September 30, 2009.

On June 29, 2009, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php3,000 million to finance capital expenditures. The facility is comprised of Php1,000 million Series A1 note payable in full in 1.5 years and Php1,000 million each for Series B1 and B2 notes payable in full in two years. The aggregate amount of Php2,000 million of Series A1 and B1 notes were drawn on July 8, 2009 while the aggregate amount of Php1,000 million of Series B2 notes was drawn on September 1, 2009. The aggregate amount of Php3,000 million (Php2,987 million, net of unamortized debt discount of Php13 million) remained outstanding as at September 30, 2009.

On July 16, 2009, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on August 3, 2009. The facility is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown with final repayment on August 1, 2014. The amount of Php1,000 million (Php995 million, net of unamortized debt discount of Php5 million) remained outstanding as at September 30, 2009.

On September 18, 2009, PLDT signed a loan agreement with Bank of the Philippine Islands, amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments. As at September 30, 2009, the undrawn balance of the loan was Php2,000 million of which Php1,000 million was subsequently drawn on October 26, 2009.

On October 9, 2009, Smart signed a US$50 million five-year term facility to finance GSM equipment and services contracts with Finnish Export Credit, Plc guaranteed by Finnvera, the Finnish Export Credit Agency, for 100% political and commercial risk cover. The facility was awarded to Citicorp as the Arranger. The loan is payable over five years in ten equal semi-annual payments. As at November 3, 2009, no amounts have been drawn under the facility.

Approximately Php44,501 million principal amount of our consolidated outstanding long-term debt as at September 30, 2009 is scheduled to mature over the period from 2009 to 2012. Of this amount, Php23,289 million is attributable to Smart, Php20,758 million to PLDT, and the remainder to Mabuhay Satellite and ePLDT.

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

*Debt Covenants*

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

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

*Financing Requirements*

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

Consolidated cash dividend payments in the first nine months of 2009 amounted to Php39,194 million as compared with Php37,044 million paid to shareholders in the same period in 2008. On August 5, 2008, we declared a regular cash dividend of Php70 per share and on March 3, 2009, we declared our regular and special cash dividends of Php70 per share and Php60 per share, respectively, representing approximately 100% payout of our 2008 earnings per share on an adjusted basis (excluding asset impairment on non-current assets and gains/losses on foreign exchange revaluation and derivatives).

On August 4, 2009, we declared a regular cash dividend of Php77 per share of common stock to holders of record as at August 20, 2009 paid on September 22, 2009.

**Off-Statement of Financial Position Arrangements**

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

**Equity Financing**

PLDT raised Php12 million and Php7 million from the exercise by certain officers and executives of stock options in the first nine months of 2009 and 2008, respectively. In addition, through our subscriber investment plan which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% Cumulative Convertible Preferred Stock as part of the upfront payments collected from subscribers, PLDT was able to raise Php2 million in the first nine months of 2009 and Php1 million in same period in 2008 from this source.

As part of our goal to maximize returns to our shareholders, in 2008, we obtained board of directors' approval for a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. As at September 30, 2009, we had acquired a total of approximately 2.7 million shares of PLDT's common stock representing approximately 1% of PLDT's outstanding shares of common stock at a weighted average price of Php2,387 per share for a total consideration of Php6,404 million in accordance with the share buyback program. The effect of the acquisition of shares of PLDT's common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for the nine months ended September 30, 2009. Please refer to *Note 8 – Earnings Per Common Share* and *Note 19 – Equity* of the accompanying unaudited consolidated financial statements for further details.

**Contractual Obligations and Commercial Commitments**

*Contractual Obligations*

For a discussion of our consolidated contractual undiscounted obligations as at September 30, 2009 and December 31, 2008, see *Note 26 – Contractual Obligations and Commercial Commitments* of the accompanying unaudited consolidated financial statements.

*Commercial Commitments*

As at September 30, 2009 and December 31, 2008, our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php1,538 million and Php1,634 million, respectively. These commitments will expire within one year.

**Quantitative and Qualitative Disclosures about Market Risks**

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

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

The following table sets forth the estimated consolidated fair values of our financial assets and liabilities recognized as at September 30, 2009 and December 31, 2008:

| | Fair Values | |
|---|---|---|
| | September 30, 2009 (Unaudited) | December 31, 2008 (Audited) |
| | (in millions) | |
| **Noncurrent Financial Assets** | | |
| Available-for-sale financial assets | | |
| Listed equity securities[(1)] | Php68 | Php69 |
| Unlisted equity securities[(2)] | 65 | 62 |
| Investments in debt securities[(1)] | 469 | 629 |
| Advances and refundable deposits – net of current portion[(2)] | 757 | 728 |
| Total noncurrent financial assets | 1,359 | 1,488 |
| **Current Financial Assets** | | |
| Cash and cash equivalents[(2)] | 26,937 | 33,684 |
| Short-term investments[(2)] | 1,586 | 6,670 |
| Investment in debt securities[(1)] | – | 1,656 |
| Trade and other receivables - net[(2)] | 22,953 | 15,909 |
| Derivative financial assets[(2)] | 9 | 56 |
| Current portion of advances and refundable deposits[(2)] | 2 | – |
| Total current financial assets | 51,487 | 57,975 |
| **Total Financial Assets** | **Php52,846** | Php59,463 |
| **Noncurrent Financial Liabilities** | | |
| Interest-bearing financial liabilities[(3)] | Php82,400 | Php57,069 |
| Derivative financial liabilities[(2)] | 2,615 | 1,761 |
| Customers' deposits[(2)] | 1,531 | 1,476 |
| Deferred credits and other noncurrent liabilities[(2)] | 8,749 | 7,959 |
| Total noncurrent financial liabilities | 95,295 | 68,265 |
| **Current Financial Liabilities[(2)]** | | |
| Accounts payable | 18,336 | 16,294 |
| Accrued expenses and other current liabilities | 23,852 | 18,612 |
| Derivative financial liabilities | 1 | 87 |
| Interest-bearing financial liabilities | 13,476 | 15,080 |
| Dividends payable | 1,762 | 1,379 |
| Total current financial liabilities | 57,427 | 51,452 |
| **Total Financial Liabilities** | **Php152,722** | Php119,717 |

(1) *Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.*
(2) *Fair values determined using inputs other than quoted prices that are either directly or indirectly observable for the assets or liabilities.*
(3) *Fair values of U.S. dollar notes were determined using observable inputs that reflect quoted prices in active markets while fair values of other loans were determined using inputs other than quoted prices.*

The following table sets forth the amount of consolidated gains (losses) recognized for the financial assets and liabilities for the nine months ended September 30, 2009 and for the year ended December 31, 2008:

| | September 30, 2009 (Unaudited) | December 31, 2008 (Audited) |
|---|---|---|
| | (in millions) | |
| **Profit and Loss** | | |
| Interest income | Php1,291 | Php1,668 |
| Gains (losses) on derivative financial instruments – net | (534) | 3,812 |
| Accretion on financial liabilities – net | (778) | (956) |
| Interest on loans and other related items | (4,393) | (5,861) |
| Net losses on cash flow hedges | – | (404) |
| **Other Comprehensive Income** | | |
| Net gains available-for-sale financial assets | 1 | (9) |
| Net losses on cash flow hedges charged to other comprehensive income | – | (662) |
| Net gains on cash flow hedges removed from other comprehensive income taken to income | – | (697) |
| | (Php4,413) | (Php3,109) |

## Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines in the first nine months of 2009 was 3.4% as compared with 9.2% in the same period in 2008. Moving forward, we expect inflation to increase which may have an impact on our operations.

# PART II – OTHER INFORMATION

### *Piltel's Acquisition of Shares in Meralco*

On March 12, 2009, First Philippine Holdings Corporation, or FPHC, First Philippine Utilities Corporation, or FPUC, and Lopez, Inc., together, the Lopez Group and PLDT entered into an investment and cooperation agreement pursuant to which: (a) PLDT agreed to acquire, through Piltel as its designated affiliate, 223 million shares in Meralco representing approximately 20% of Meralco's outstanding shares of common stock, for a cash consideration of Php20.07 billion, or Php90 per share, and (b) PLDT and the Lopez Group agreed on certain governance matters, including the right of PLDT or its designee to nominate certain senior management officers and members of the board of directors and board committees of Meralco. As part of the transaction, Piltel and FPUC also entered into an exchangeable note agreement pursuant to which Piltel purchased an exchangeable note dated April 20, 2009, issued by FPUC, with a face value of Php2 billion, exchangeable at Piltel's option into approximately 22.2 million shares of common stock of Meralco, which form part of the 223 million shares or approximately 20% of Meralco's voting common shares to be acquired by Piltel in this transaction. The exchange option is exerciseable simultaneously with the acquisition of such shares by Piltel.

In the Annual Stockholders' Meeting held on June 30, 2009, Piltel's stockholders approved the acquisition by Piltel of 223 million shares in Meralco. On July 14, 2009, Piltel paid Php18.07 billion and exercised the exchange option for the approximately 22.2 million shares, which were the subject of the exchangeable note issued by FPUC that completed the acquisition of the 223 million shares in Meralco. The market value of the exchangeable note, including the derivative option, was determined to be Php3,286 million as at July 14, 2009, thus the investment in 223 million shares in Meralco was initially recorded at Php21,356 million. The total gain recognized in the exercise of the exchange option amounted to Php1,286 million representing a mark-to-market gains of Php1,170 million and amortization of discount of Php116 million. The acquisition of the shares was implemented through a special block sale/cross sale executed at the PSE. Please see *Note 10 – Investments in Associates and Joint Ventures* of the accompanying unaudited consolidated financial statements for further discussion.

Meralco is the largest distributor of electricity in the Philippines with a service area spanning 9,337 square kilometers, where approximately a quarter of the total Philippine population resides. It has a customer base of about 4.6 million, comprising commercial, industrial, and residential customers. In addition to electrical distribution, Meralco undertakes several related businesses, including e-Meralco Ventures, Inc., which operates a fiber optic network of over 1,000 kilometers and provides leased line connections, metro ethernet connections and disaster recovery transport services.

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

***Sale/Transfer of Piltel's Cellular Business/Assets to Smart and the Acquisition by Smart of a Non-controlling Interest in Piltel***

On June 30, 2009, Piltel's stockholders approved the sale/transfer of Piltel's cellular business/assets to Smart through a series of transactions, which would include: (a) the assignment of Piltel's *Talk 'N Text* trademark to Smart for a consideration of Php8,004 million; (b) the transfer of Piltel's existing *Talk 'N Text* subscriber base to Smart in consideration of Php73 per subscriber equivalent to the average subscriber acquisition cost in 2008 of Smart for its *Smart Buddy* subscribers; and (c) the sale of Piltel's GSM fixed assets to Smart at net book value. As a result, the cellular business will therefore be consolidated under Smart in order to maximize revenue streams and eliminate any lingering regulatory issues relating to the traffic between Piltel and Smart. The transfer was completed on August 17, 2009. The foregoing transactions between Smart and Piltel are eliminated in our unaudited consolidated financial statements.

In view of the change in Piltel's business direction, Smart's Board of Directors approved on June 19, 2009 a tender offer to acquire at Php8.50 per share, payable in cash and in full on August 12, 2009 from Piltel's non-controlling shareholders the remaining 840 million shares. These shares represent approximately 7.19% of the outstanding common stock of Piltel. Smart filed the Tender Offer Report with the PSEC and the PSE on June 23, 2009 pursuant to Section 19 of the Securities Regulation Code. The tender offer commenced on July 1, 2009 and ended on July 29, 2009, with approximately 93% of Piltel's non-controlling shares tendered, thereby increasing Smart's ownership to approximately 99.5% of the outstanding common stock of Piltel. Please see *Note 2 – Summary of Significant Accounting Policies* of the accompanying unaudited consolidated financial statements for further discussion.

***Piltel's Share Buyback Program***

On August 3, 2009, Piltel's Board of Directors approved a share buyback program of up to 61.5 million shares at a maximum price per share of Php8.50 to accommodate non-controlling shareholders who may not have had the opportunity to participate in the tender offer of Smart due to various constraints. As with the previous buyback programs, this will be done directly from the open market through the trading facilities of the PSE and will continue until the number of shares earmarked for the program has been fully repurchased, or until such time as Piltel's Board of Directors determine otherwise. As at September 30, 2009, no shares have been repurchased through this program. Please see *Note 2 – Summary of Significant Accounting Policies* of the accompanying unaudited consolidated financial statements for further discussion.

***Additional Investment of Smart in BOW***

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

***Smart's Acquisition of shares in Primeworld Digital Systems, Inc., or PDSI***

Smart acquired 84 million shares, the total issued and outstanding capital stock of PDSI, for a total consideration of Php1,569 million. The acquisition was completed on two dates: (1) the First Closing which took place on May 14, 2009, involved the acquisition of 34 million shares for a consideration of Php632 million; and (2) the Second Closing which took place on October 2, 2009, involved the acquisition of 50 million shares for a consideration of Php937 million.

Upon completion of the First Closing, on May 14, 2009, Smart became entitled to the following conditions: (1) two seats out of the five seats in the Board of Directors of PDSI; and (2) can require PDSI to conduct WiMax trials which shall be initiated by Smart in consultation with the selling shareholders of PDSI. The conditions of the Second Closing include: (a) the First Closing shall have occurred; and (b) the National Telecommunications Commission, or NTC, shall have issued an order approving the transfer of the Second Closing shares to Smart and such order has become final and does not impose any condition which is unacceptable to Smart. On October 2, 2009, the conditions of the First and Second Closing were all complied with and Smart nominated all of the members of the Board of Directors of PDSI and took over control and management of PDSI. Please see *Note 2 – Summary of Significant Accounting Policies, Note 10 – Investments in Associates and Joiint Ventures* and *Note 13 – Business Combinations.*

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

On January 20, 2009 and April 15, 2009, ePLDT acquired additional equity interest of 34.31% and 48.39%, respectively, in BayanTrade for Php28 million and Php39 million, respectively, thereby increasing its ownership interest to 93.50%. Please see *Note 2 – Summary of Significant Accounting Policies, Note 10 – Investments in Associates and Joint Ventures* and *Note 13 – Business Combinations* of the accompanying unaudited consolidated financial statements for further discussion.

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

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

On August 31, 2009, SPi, through a wholly-owned U.S. subsidiary, signed a Stock Purchase Agreement with Laguna Medical, a California Corporation and its various Sellers, to purchase 80% of the issued and outstanding common shares of Laguna Medical for an aggregate price of US$6.6 million, or Php313 million. Also, on the date of acquisition, SPi signed a Put-Call Agreement with Laguna Medical LLC, a Delaware Corporation and the Parent Company of Laguna Medical, for the right to call the remaining 20% of the outstanding common stock of Laguna Medical. Please see *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business Combinations* of the accompanying unaudited consolidated financial statements for further discussion.

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

***Recent NTC Memorandum Circulars***

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

Memorandum Circular No. 05-07-2009, dated July 23, 2009, prescribes six (6) seconds per pulse as the maximum unit of billing for cellular mobile telephone service, or CMTS, voice. Operators will be allowed to charge a higher rate for the first two pulses (or 12 seconds) in order to recover set-up costs. Subscribers, however, may still opt to be billed on a per minute basis or to subscribe to unlimited service offerings. The Memorandum requires all CMTS providers to submit their respective proposed rates within 30 days from effectivity of the circular and to make the necessary adjustments to their billing systems within 120 days from effectivity, in order to effect the change in pulsing thereafter. On September 8, 2009, Smart submitted its proposed rates to the NTC, where the case is still pending as at the date of filing of this report.

**Related Party Transactions**

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

## ANNEX – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of our unaudited consolidated receivables as at September 30, 2009:

| Type of Accounts Receivable | Total | Current | 31–60 Days | 61–90 Days | Over 91 Days |
|---|---|---|---|---|---|
| | | | (In Millions) | | |
| Corporate subscribers | Php10,397 | Php2,214 | Php1,305 | Php740 | Php6,138 |
| Retail subscribers | 8,863 | 1,196 | 1,171 | 216 | 6,280 |
| Foreign administrations | 4,730 | 1,542 | 1,285 | 745 | 1,158 |
| Domestic carriers | 1,118 | 174 | 219 | 209 | 516 |
| Dealers, agents and others | 11,758 | 11,159 | 167 | 78 | 354 |
| Total | Php36,866 | Php16,285 | Php4,147 | Php1,988 | Php14,446 |
| Less: Allowance for doubtful accounts | 13,913 | | | | |
| **Total Receivables - net** | **Php22,953** | | | | |

**SIGNATURES**

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

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

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

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

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

Date: November 3, 2009