

SEC Number
File Number

PW-55

**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, 2010

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

November 4, 2010

Securities & Exchange Commission
SEC Building, EDSA
Mandaluyong City


Attention: Director Justina Callangan
Corporation Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith two (2) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited consolidated financial statements for the nine (9) months ended September 30, 2010.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY


MA. LOURDES C. RAUSA-CHAN
Corporate Secretary



COVER SHEET

P W - 5 5
S.E.C. Registration No.

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

T E L E P H O N E C O M P A N Y
(Company's Full Name)

R A M O N C O J U A N G C O B L D G .

M A K A T I A V E . M A K A T I C I T Y
(Business Address: No. Street City/Town/Province)

MS. JUNE CHERYL A. CABAL
Contact Person

816-8534
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

SEC FORM 17-Q
FORM TYPE

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Month Day Tuesday
Annual Meeting

C F D
Dept. Requiring this Doc.

N/A
Amended Articles
Number/Section

2,182,513
As of September 30, 2010
Total No. of Stockholders

Total Amount of Borrowings
N/A
Domestic

N/A
Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2010
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
Address of registrant's principal office 0721
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 186,797,521 shares as at September 30, 2010

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

Yes [] 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 [] No []

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

Yes [] No []

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PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Our consolidated financial statements as at September 30, 2010 (unaudited) and December 31, 2009 (audited) and for the nine months ended September 30, 2010 and 2009 (unaudited) and related notes (pages F-1 to F-119) 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 have 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. Unless otherwise indicated, translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php43.92 to US\$1.00, the volume weighted average exchange rate on September 30, 2010 quoted through the Philippine Dealing System.

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

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

Financial Highlights and Key Performance Indicators

(in millions, except for earnings per common share, operational data and exchange rates)	<u>September 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>	<u>Decrease</u>	
	(Unaudited)	(Audited)	<u>Amount</u>	<u>%</u>
Consolidated Statements of Financial Position				
Total assets	Php265,096	Php280,148	(Php15,052)	(5)
Property, plant and equipment – net	158,033	161,256	(3,223)	(2)
Cash and cash equivalents and short-term investments	30,268	42,143	(11,875)	(28)
Total equity attributable to equity holders of PLDT	88,690	98,575	(9,885)	(10)
Notes payable and long-term debt	93,460	98,729	(5,269)	(5)
Net debt ⁽¹⁾ to equity ratio	0.71x	0.57x	–	–
Consolidated Income Statements				
	<u>September 30,</u> <u>2010</u>	<u>September 30,</u> <u>2009</u>	<u>Change</u>	
	(Unaudited)	(Unaudited)	<u>Amount</u>	<u>%</u>
Revenues	Php108,272	Php109,970	(Php1,698)	(2)
Expenses	64,916	65,515	(599)	(1)
Other expenses	324	2,552	(2,228)	(87)
Income before income tax	43,032	41,903	1,129	3
Net income for the period	32,058	30,684	1,374	4
Net income attributable to equity holders of PLDT				
Reported net income	31,988	30,018	1,970	7
Core income ⁽²⁾	31,423	30,951	472	2
EBITDA ⁽³⁾	63,813	65,745	(1,932)	(3)
EBITDA margin ⁽⁴⁾	60%	61%	–	–
Reported earnings per common share				
Basic	169.38	158.70	10.68	7
Diluted	169.38	158.68	10.70	7
Core earnings per common share				
Basic	166.36	163.70	2.66	2
Diluted	166.36	163.68	2.68	2
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	54,026	56,326	(2,300)	(4)
Net cash used in investing activities	15,502	36,157	(20,655)	(57)
Capital expenditures	16,923	18,064	(1,141)	(6)
Net cash used in financing activities	49,676	26,797	22,879	85
Operational Data				
Number of cellular subscribers	44,112,343	39,147,990	4,964,353	13
Number of fixed line subscribers	1,839,962	1,787,441	52,521	3
Number of broadband subscribers	2,005,384	1,377,439	627,945	46
Fixed Line	630,984	548,313	82,671	15
Wireless	1,374,400	829,126	545,274	66
Number of employees	29,624	29,448	176	1
Fixed Line	8,047	8,117	(70)	(1)
Wireless	5,494	5,499	(5)	–
Information and Communications Technology	16,083	15,832	251	2
Exchange Rates				
	<u>Php per US\$</u>			
September 30, 2010	43.92			
December 31, 2009	46.43			
September 30, 2009	47.42			
December 31, 2008	47.65			

(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) Core income for the period is measured as net income attributable to equity holders of PLDT, excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, excluding hedge cost, asset impairment on noncurrent assets, other nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures.

(3) EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other nonrecurring gains (losses) – net.

(4) EBITDA margin is derived as a percentage of service revenues.

Overview

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

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, PLDT Communications and Energy Ventures, Inc., or PCEV, (formerly known as Pilipino Telephone Corporation, or Piltel, whereas on August 17, 2009, Smart acquired the cellular business of Piltel) and Connectivity Unlimited Resources Enterprises, or CURE, our cellular service providers; Smart Broadband, Inc., or SBI, Blue Ocean Wireless, or BOW, Airborne Access Corporation, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; Wolfpac Mobile, Inc., or Wolfpac, and Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group, our wireless content operators; and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator;
- *Fixed Line* — fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. (formerly known as Philcom Corporation), or Philcom, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, and PLDT Global Corporation, or PLDT Global, all of which together account for approximately 4% of our consolidated fixed line subscribers; and
- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT, and BayanTrade, Inc., or BayanTrade; knowledge processing solutions provided by SPi Technologies, Inc. and its subsidiaries, or SPi Group; customer relationship management provided by SPi CRM Inc., or SPi CRM (formerly known as *ePLDT Ventus*), (on April 8, 2010, SPi CRM, Parlance Systems, Inc. and Vocativ Systems, Inc. were merged wherein SPi CRM became the surviving entity); 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 Php108,272 million in the nine months ended September 30, 2010, a decrease of Php1,698 million, or 2%, as compared with Php109,970 million in the same period in 2009, primarily due to a decline in our service revenues by Php1,561 million mainly from national and international long distance services of our fixed line business, as well as lower revenues from our wireless business, as a result of lower cellular and satellite service revenues.

Consolidated expenses decreased by Php599 million, or 1%, to Php64,916 million in the nine months ended September 30, 2010 from Php65,515 million in the same period in 2009, largely resulting from decreases in asset impairment, selling and promotions, compensation and employee benefits, and cost of sales partly offset by higher depreciation and amortization, professional and other contracted services, repairs and maintenance, and rent expenses.

Consolidated other expenses – net in the nine months ended September 30, 2010 amounted to Php324 million, a decrease of Php2,228 million, or 87%, from Php2,552 million in the same period in 2009 primarily due to the combined effects of the following: (i) higher net foreign exchange gains by Php1,435 million in the first nine months of 2010 as compared with the same period in 2009 due to the revaluation of foreign-currency denominated liabilities as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar; (ii) net increase in equity share in net earnings of associates and joint ventures of Php1,108 million mainly due to the share in net earnings of Manila Electric Company, or Meralco (223 million Meralco shares were acquired by PCEV on July 14, 2009, of which 154.2 million shares were transferred to Beacon Electric Asset Holdings, Inc., or Beacon, where PCEV has acquired a 50% equity interest effective March 31, 2010); (iii) net losses on derivative financial instruments of Php495 million in the first nine months of 2010 as compared with Php534 million in the same period in 2009 due to the mark-to-market valuation of principal-only currency swaps; (iv) lower interest income by Php377 million due to lower average level of money market placements and special deposits; and (v) an increase in net financing costs by Php298 million mainly due to higher interest on loans and other related items – net, on account of PLDT's and Smart's higher average loan balances, and higher accretion on amortization of debt issuance cost and debt discount, and contingent consideration for business acquisitions.

Consolidated net income increased by Php1,374 million, or 4%, to Php32,058 million in the nine months ended September 30, 2010 from Php30,684 million in the same period in 2009. The increase was mainly due to the combined effects of the following: (i) decrease in consolidated other expenses by Php2,228 million; (ii) a decrease in consolidated expenses by Php599 million; (iii) decrease in the consolidated provision for income tax by Php245 million mainly due to lower taxable income of our wireless and ICT businesses partially offset by higher taxable income of our fixed line business; and (iv) a decrease in consolidated revenues by Php1,698 million. Consolidated net income attributable to equity holders of PLDT increased by Php1,970 million, or 7%, to Php31,988 million in the first nine months of 2010 from Php30,018 million in the same period in 2009. The increase in our consolidated net income attributable to equity holders of PLDT is higher as compared with the increase in our consolidated net income mainly due to the favorable effect of Smart's acquisition of equity interest from PCEV's non-controlling shareholders in 2009. Consolidated core income increased by Php472 million, or 2%, to Php31,423 million in the first nine months of 2010 from Php30,951 million in the same period in 2009. Our consolidated basic and diluted earnings per common share increased to Php169.38 for the first nine months of 2010 from Php158.70 and Php158.68 for our consolidated basic and diluted earnings per common share, respectively, in the same period in 2009. The increase in consolidated basic and diluted earnings per share of Php10.68, or 7%, and Php10.70, or 7%, respectively, is due to a 7% increase in our reported net income attributable to equity holders of PLDT. Likewise, our consolidated core basic and diluted earnings per common share increased to Php166.36 for the first nine months of 2010 from Php163.70 and Php163.68 for our consolidated core basic and diluted earnings per common share, respectively, in the same period in 2009. Our weighted average number of common shares was approximately 187 million in each of the nine months ended September 30, 2010 and 2009.

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, 2010 and 2009. The majority of our revenues are derived from our operations within the Philippines.

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Consolidated				
(in millions)									
For the nine months ended September 30, 2010 (Unaudited)									
Revenues	Php71,515	Php37,043	Php8,261	(Php8,547)	Php108,272				
Expenses	37,407	28,291	7,931	(8,713)	64,916				
Other income (expenses)	1,472	(1,670)	40	(166)	(324)				
Income before income tax	35,580	7,082	370	–	43,032				
Net income for the period	26,597	5,071	390	–	32,058				
Net income attributable to equity holders of PLDT									
Reported net income	26,518	5,063	407	–	31,988				
Core income	26,242	4,686	495	–	31,423				
EBITDA	44,323	18,189	1,135	166	63,813				
EBITDA margin	63%	49%	14%	–	60%				
For the nine months ended September 30, 2009 (Unaudited)									
Revenues	72,468	38,388	8,386	(9,272)	109,970				
Expenses	38,313	28,298	8,300	(9,396)	65,515				
Other income (expenses)	956	(3,623)	241	(126)	(2,552)				
Income before income tax	35,111	6,467	327	(2)	41,903				
Net income for the period	25,858	4,663	165	(2)	30,684				
Net income attributable to equity holders of PLDT									
Reported net income	25,198	4,657	165	(2)	30,018				
Core income	24,430	6,360	163	(2)	30,951				
EBITDA	44,521	20,254	846	124	65,745				
EBITDA margin	63%	53%	11%	–	61%				
Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	%	
(in millions)									
Revenues	(Php953)	(1)	(Php1,345)	(4)	(Php125)	(1)	725	(Php1,698)	(2)
Expenses	(906)	(2)	(7)	–	(369)	(4)	683	(599)	(1)
Other income (expenses)	516	54	(1,953)	(54)	(201)	(83)	(40)	(2,228)	(87)
Income before income tax	469	1	615	10	43	13	2	1,129	3
Net income for the period	739	3	408	9	225	136	2	1,374	4
Net income attributable to equity holders of PLDT									
Reported net income	1,320	5	406	9	242	147	2	1,970	7
Core income	1,812	7	(1,674)	(26)	332	204	2	472	2
EBITDA	(198)	–	(2,065)	(10)	289	34	42	(1,932)	(3)

Wireless

Revenues

Revenues generated from our wireless business amounted to Php71,515 million in the nine months ended September 30, 2010, a decrease of Php953 million, or 1%, from Php72,468 million in the same period in 2009. The following table summarizes our total revenues from our wireless business for the nine months ended September 30, 2010 and 2009 by service segment:

	2010	%	2009	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Service Revenues:						
Cellular	Php64,819	91	Php65,844	91	(Php1,025)	(2)
Wireless broadband, satellite and others						
Wireless broadband	4,781	7	3,899	5	882	23
Satellite and others	845	1	1,459	2	(614)	(42)
	70,445	99	71,202	98	(757)	(1)
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	1,070	1	1,266	2	(196)	(15)
Total Wireless Revenues	Php71,515	100	Php72,468	100	(Php953)	(1)

Service Revenues

Our wireless service revenues decreased by Php757 million, or 1%, to Php70,445 million in the first nine months of 2010 as compared with Php71,202 million in the same period in 2009, mainly as a result of lower revenues from our cellular services, satellite and other revenues. Revenues from domestic and international text messaging services declined due to the increase in multiple SIM card ownership, intense competition, the continued decline in short messaging service, or SMS, yield as a result of aggressive SMS offers, and the prescribed extension of load validity periods, partially offset by an increase in voice revenues due to the introduction of new unlimited voice offers in the second half of 2009. Our dollar-linked revenues were negatively affected as well by the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues to Php45.60 for the nine months ended September 30, 2010 from Php47.93 for the nine months ended September 30, 2009. With subscriber growth being driven by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, average monthly cellular ARPUs for the first nine months of 2010 were lower as compared with the same period in 2009. We expect this trend to continue due to the popularity of unlimited voice offers and competitive pressure. As a percentage of our total wireless revenues, service revenues remained stable at 99% and 98% in the nine months ended September 30, 2010 and 2009, respectively.

Cellular Service

Our cellular service revenues in the first nine months of 2010 amounted to Php64,819 million, a decrease of Php1,025 million, or 2%, from Php65,844 million in the same period in 2009. Cellular service revenues accounted for 92% of our wireless service revenues in each of the first nine months of 2010 and 2009.

The following tables show the breakdown of our cellular service revenues and other key measures of our cellular business as at and for the nine months ended September 30, 2010 and 2009:

	2010	2009	Increase (Decrease)	
			Amount	%
	(in millions)			
Cellular service revenues	Php64,819	Php65,844	(Php1,025)	(2)
<i>By service type</i>				
Prepaid	62,880	63,945	(1,065)	(2)
Postpaid	57,919	59,021	(1,102)	(2)
	4,961	4,924	37	1
<i>By component</i>				
Voice	62,880	63,945	(1,065)	(2)
Data	31,861	28,459	3,402	12
	31,019	35,486	(4,467)	(13)
<i>Others⁽¹⁾</i>	1,939	1,899	40	2

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

	2010	2009	Increase (Decrease)	
			Amount	%
Cellular subscriber base	44,112,343	39,147,990	4,964,353	13
Prepaid	43,693,765	38,715,974	4,977,791	13
<i>Smart Buddy</i>	25,175,430	22,089,866	3,085,564	14
<i>Talk 'N Text</i>	18,136,858	16,552,143	1,584,715	10
<i>Red Mobile</i>	381,477	73,965	307,512	416
Postpaid	418,578	432,016	(13,438)	(3)
Systemwide traffic volumes (in millions)				
Calls (in minutes)	19,577	10,071	9,506	94
Domestic	17,323	7,897	9,426	119
<i>Inbound</i>	1,086	1,127	(41)	(4)
<i>Outbound</i>	16,237	6,770	9,467	140
International	2,254	2,174	80	4
<i>Inbound</i>	2,098	2,030	68	3
<i>Outbound</i>	156	144	12	8
SMS count	253,494	202,459	51,035	25
Text messages	252,354	201,218	51,136	25
Domestic	252,122	200,988	51,134	25
<i>Bucket-Priced</i>	238,485	186,655	51,830	28
<i>Standard</i>	13,637	14,333	(696)	(5)
International	232	230	2	1
Value-Added Services	1,122	1,227	(105)	(9)
Financial Services	18	14	4	29

Revenues attributable to our cellular prepaid service amounted to Php57,919 million in the first nine months of 2010, a decrease of Php1,102 million, or 2%, as compared with Php59,021 million earned in the same period in 2009. Prepaid cellular service revenues accounted for 92% of cellular voice and data revenues in each of the first nine months of 2010 and 2009. Revenues attributable to Smart's postpaid cellular service amounted to Php4,961 million in the first nine months of 2010, an increase of Php37 million, or 1%, over the Php4,924 million earned in the same period in 2009, and accounted for 8% of cellular voice and data revenues in each of the first nine months of 2010 and 2009.

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 Php3,402 million, or 12%, to Php31,861 million in the first nine months of 2010 from Php28,459 million in the same period in 2009 primarily due to an increase in domestic call revenues, partially offset by a decrease in international call revenues. Cellular voice services accounted for 49% of our cellular service revenues in the first nine months of 2010 as compared with 43% in the same period in 2009.

The following table shows the breakdown of our cellular voice revenues for the nine months ended September 30, 2010 and 2009:

	2010	2009 (in millions)	Increase (Decrease)	
			Amount	%
Voice services:				
<i>Domestic</i>				
Inbound	Php1,695	Php1,317	Php378	29
Outbound	17,693	14,269	3,424	24
	<u>19,388</u>	<u>15,586</u>	<u>3,802</u>	<u>24</u>
<i>International</i>				
Inbound	10,250	10,347	(97)	(1)
Outbound	2,223	2,526	(303)	(12)
	<u>12,473</u>	<u>12,873</u>	<u>(400)</u>	<u>(3)</u>
Total	<u>Php31,861</u>	<u>Php28,459</u>	<u>Php3,402</u>	<u>12</u>

Domestic voice service revenues increased by Php3,802 million, or 24%, to Php19,388 million in the first nine months of 2010 from Php15,586 million in the same period in 2009 primarily due to an increase in domestic outbound call revenues by Php3,424 million, or 24%, to Php17,693 million in the first nine months of 2010 from Php14,269 million in the same period in 2009 mainly due to unlimited voice offerings. This was complemented by the higher revenue contribution of our inbound domestic voice service by Php378 million, or 29%, to Php1,695 million in the first nine months of 2010 from Php1,317 million in the same period in 2009 as a result of higher traffic to other domestic carriers and downward traffic settlement adjustments, partly offset by lower call volumes from fixed rate calling packages. Inbound and outbound domestic call volumes were 1,086 million minutes and 16,237 million minutes, respectively, in the first nine months of 2010 from 1,127 million minutes and 6,770 million minutes, respectively, in the same period in 2009. The aggregate increase was mainly due to higher call volumes from unlimited voice offerings.

International voice service revenues decreased by Php400 million, or 3%, to Php12,473 million in the first nine months of 2010 from Php12,873 million in the same period in 2009 primarily due to a decline in the outbound and inbound international voice service revenues by Php303 million, or 12%, to Php2,223 million and by Php97 million, or 1%, to Php10,250 million, respectively, in the first nine months of 2010 from Php2,526 million and Php10,347 million, respectively, in the same period in 2009, including the effect on our dollar-linked revenues of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.60 for the nine months ended September 30, 2010 from Php47.93 for the nine months ended September 30, 2009. On the other hand, international inbound and outbound calls totaled 2,254 million minutes in the first nine months of 2010, an increase of 80 million minutes, or 4%, as compared with 2,174 million minutes in the same period in 2009, mainly due to an increase in our cellular subscriber base.

Smartalk, Smart's unlimited voice offering, is now available to *Smart Buddy* and *Smart Gold* subscribers nationwide. The service does not require any change in SIM or cellular phone number and enables *Smart Buddy* and *Smart Gold* subscribers to make unlimited calls to any subscriber on the Smart network. Smart subscribers could avail of the service, via registration or via retailer loading, by purchasing loads for unlimited calls which come in two denominations:

- “*Smartalk 100*” which offers five days of unlimited calls for Php100; and
- “*Smartalk 500*” which offers 30 days of unlimited calls for Php500 to any subscriber on the Smart network.

In addition, Smart also offers *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.

Through the *Talk 'N Text UnliTalk Plus 100* package, existing *Talk 'N Text* subscribers can avail of unlimited off-peak calls from 10:00 p.m. to 5:00 p.m. and special peak hour rates of Php2.50 per minute from 5:01 p.m. to 9:59 p.m. to any *Smart Buddy*, Smart Postpaid and *Talk 'N Text* subscribers. The package also includes all day unlimited texting to any *Smart Buddy*, Smart Postpaid and *Talk 'N Text* subscribers. Each registration to this promo is valid for five days.

Red Mobile introduced its unlimited voice and SMS offer which utilizes a secondary prepaid network powered by Smart. *Red Mobile Unlimited* offers unlimited *Red-to-Red* call and text, and unlimited *Red-to-Red* text packages, as well as unlimited calling and texting to all Smart subscribers.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php4,467 million, or 13%, to Php31,019 million in the first nine months of 2010 from Php35,486 million in the same period in 2009. Cellular data services accounted for 48% and 54% of our cellular service revenues in the first nine months of 2010 and 2009, respectively.

The following table shows the breakdown of our cellular data revenues for the nine months ended September 30, 2010 and 2009:

	2010	2009	Increase (Decrease)	
			Amount	%
			(in millions)	
Text messaging				
Domestic	Php28,159	Php32,471	(Php4,312)	(13)
<i>Bucket-Priced</i>	17,512	20,365	(2,853)	(14)
<i>Standard</i>	10,647	12,106	(1,459)	(12)
International	994	1,143	(149)	(13)
	<u>29,153</u>	<u>33,614</u>	<u>(4,461)</u>	<u>(13)</u>
Value-added services				
Standard ⁽¹⁾	773	787	(14)	(2)
Rich Media ⁽²⁾	756	752	4	1
<i>Pasa Load</i> ⁽³⁾	308	310	(2)	(1)
	<u>1,837</u>	<u>1,849</u>	<u>(12)</u>	<u>(1)</u>
Financial services				
<i>Smart Money</i>	25	20	5	25
Mobile Banking	4	3	1	33
	<u>29</u>	<u>23</u>	<u>6</u>	<u>26</u>
Total	<u>Php31,019</u>	<u>Php35,486</u>	<u>(Php4,467)</u>	<u>(13)</u>

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

⁽²⁾ Includes Multimedia Messaging System, or MMS, internet browsing, General Packet Radio Service, or GPRS, etc.

⁽³⁾ A service which allows prepaid subscribers to transfer small denominations of air time credits to other prepaid subscribers.

Text messaging-related services contributed revenues of Php29,153 million in the first nine months of 2010, a decrease of Php4,461 million, or 13%, as compared with Php33,614 million in the same period in 2009, and accounted for 94% and 95% of our total cellular data revenues in the first nine months of 2010 and 2009, respectively. The decrease in revenues from text messaging-related services resulted mainly from the continued decline in SMS yield as a result of aggressive SMS offers and the increased number of subscribers who also hold SIM cards from other cellular operators and who selectively use such SIM cards. Other factors that contributed to this decline in revenues were the prescribed extension of load validity periods and cheaper alternative means of communication. Text messaging revenues from the various bucket-priced plans totaled Php17,512 million in the first nine months of 2010, a decrease of Php2,853 million, or 14%, as compared with Php20,365 million in the same period in 2009. Likewise, standard text messaging revenues decreased by Php1,459 million, or 12%, to Php10,647 million in the first nine months of 2010 from Php12,106 million in the same period in 2009. The decrease in international text messaging revenues was mainly due to the higher average/effective rate of roaming costs in the first nine months of 2010.

Bucket-priced text messages in the first nine months of 2010 totaled 238,485 million, an increase of 51,830 million, or 28%, as compared with 186,655 million in the same period in 2009 primarily due to the continued patronage of bucket and unlimited text messaging offers. Standard text messages totaled 13,637 million in the first nine months of 2010, a decrease of 696 million, or 5%, as compared with 14,333 million in the same period in 2009 as a result of lower usage owing to a shift to bucket-priced text services.

VAS, which contributed revenues of Php1,837 million in the first nine months of 2010, decreased by Php12 million, or 1%, as compared with Php1,849 million in the same period in 2009 primarily due to lower usage of standard VAS and *Pasa Load* owing to the continued patronage of low-denomination top-ups partially offset by an increase in rich media VAS mainly from mobile internet browsing.

Subscriber Base, ARPU and Churn Rates

In the first nine months of 2010, Smart, including *Talk 'N Text* and *Red Mobile* subscribers totaled 44,112,343 an increase of 4,964,353, or 13%, over their combined cellular subscriber base of 39,147,990 in the same period in 2009. Our cellular prepaid subscriber base grew by 13% to 43,693,765 in the first nine months of 2010 from 38,715,974 in the same period in 2009, while our cellular postpaid subscriber base decreased by 13,438, or 3%, to 418,578 in the first nine months of 2010 from 432,016 in the same period in 2009. Prepaid subscribers accounted for 99% of our total subscriber base as at September 30, 2010 and 2009. Prepaid and postpaid subscribers reflected net activations of 2,800,667 and net reductions of 16,965, respectively, in the first nine months of 2010 as compared with net activations of 3,889,506 and 33,880, respectively, in the same period in 2009.

Our net subscriber activations for the nine months ended September 30, 2010 and 2009 were as follows:

	2010	2009	Increase (Decrease)	
			Amount	%
Prepaid	2,800,667	3,889,506	(1,088,839)	(28)
<i>Smart Buddy</i>	1,412,616	1,588,249	(175,633)	(11)
<i>Talk 'N Text</i>	1,086,145	2,243,650	(1,157,505)	(52)
<i>Red Mobile</i>	301,906	57,607	244,299	424
Postpaid	(16,965)	33,880	(50,845)	(150)
Total	2,783,702	3,923,386	(1,139,684)	(29)

For *Smart Buddy*, the average monthly churn rate in the first nine months of 2010 and 2009 was 4.9% and 4.4%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers was 5.4% and 4.9% in the first nine months of 2010 and 2009, respectively. The average monthly churn rate for *Red Mobile* subscribers was 79% and 8.5% in the first nine months of 2010 and 2009, respectively.

The average monthly churn rate for Smart's postpaid subscribers is 2.4% and 1.8% for the first nine months of 2010 and 2009, 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 is implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.



The following table summarizes our average monthly cellular ARPUs for the nine months ended September 30, 2010 and 2009:

	Gross ⁽¹⁾		Decrease		Net ⁽²⁾		Decrease	
	2010	2009	Amount	%	2010	2009	Amount	%
Prepaid								
Smart Buddy	Php221	Php263	(Php42)	(16)	Php175	Php208	(Php33)	(16)
Talk 'N Text	138	164	(26)	(16)	114	135	(21)	(16)
Red Mobile	7	20	(13)	(65)	6	12	(6)	(50)
Prepaid – Blended ⁽³⁾	184	221	(37)	(17)	148	177	(29)	(16)
Postpaid – Smart	1,671	1,826	(155)	(8)	1,257	1,316	(59)	(4)
Prepaid and Postpaid Blended ⁽⁴⁾	199	238	(39)	(16)	159	189	(30)	(16)

- ⁽¹⁾ Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, gross of discounts, allocated content-provider costs and interconnection income but excluding inbound roaming revenues, by the average number of subscribers in the month.
- ⁽²⁾ Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income net of interconnection expense, but net of discounts and content-provider costs, by the average number of subscribers in the month.
- ⁽³⁾ The average monthly ARPU of Smart Buddy, Talk 'N Text and Red Mobile.
- ⁽⁴⁾ The average monthly ARPU of all prepaid and postpaid cellular subscribers.

Prepaid service revenues consist mainly of charges for the subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU in the first nine months of 2010 was Php184, a decrease of 17%, as compared with Php221 in the same period in 2009. The decrease was primarily due to a decline in the average outbound domestic text messaging revenue per subscriber, as well as a drop in the average inbound international and domestic voice revenue per subscriber in the first nine months of 2010 as compared with the same period in 2009. On a net basis, prepaid blended average monthly ARPU in the first nine months of 2010 was Php148, a decrease of 16%, as compared with Php177 in the same period in 2009.

Gross average monthly ARPU for postpaid subscribers decreased by 8% to Php1,671 as net average monthly ARPU also decreased by 4% to Php1,257 in the first nine months of 2010 as compared with Php1,826 and Php1,316 in the same period in 2009, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php199 in the first nine months of 2010, a decrease of 16%, as compared with Php238 in the same period in 2009. Likewise, net average monthly prepaid and postpaid blended ARPU decreased by 16% to Php159 in the first nine months of 2010 from Php189 in the same period in 2009.

Our average monthly prepaid and postpaid ARPUs per quarter for the three quarters of 2010 and four quarters of 2009 were as follows:

	Prepaid						Postpaid	
	Smart Buddy		Talk 'N Text		Red Mobile		Smart	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
2010								
First Quarter	Php232	Php184	Php140	Php115	Php11	Php8	Php1,686	Php1,286
Second Quarter	224	179	141	116	4	3	1,665	1,257
Third Quarter	207	163	135	112	6	5	1,661	1,229
2009								
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
Fourth Quarter	252	203	152	127	18	15	1,791	1,304

- ⁽¹⁾ Gross monthly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.
- ⁽²⁾ Net monthly 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, charges for ACeS Philippines' satellite information and messaging services and service revenues generated by the mobile virtual network operations of PLDT Global's subsidiary.

Wireless Broadband

Revenues from our wireless broadband services increased by Php882 million, or 23%, to Php4,781 million in the first nine months of 2010 from Php3,899 million in the same period in 2009 primarily due to the growth in wireless broadband subscribers.

SBI offers a number of wireless broadband services and had a total of 1,337,965 subscribers as at September 30, 2010, an increase of 536,407 subscribers, or 67%, as compared with 801,558 subscribers as at September 30, 2009. Our postpaid wireless broadband subscriber base grew by 3,492, or 1%, to 432,504 as at September 30, 2010 from 429,012 as at September 30, 2009, while our prepaid wireless broadband subscriber base increased by 532,915, or 143%, to 905,461 as at September 30, 2010 from 372,546 as at September 30, 2009.

SmartBro, SBI's 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.

SBI offers mobile internet access through *SmartBro Plug-It*, a wireless modem which provides instant connectivity in places where there is Smart network coverage. *SmartBro Plug-It* is available in both postpaid and prepaid variants, with prepaid offering 30-minute internet access for every Php10 worth of load. SBI also offers unlimited internet surfing with *Unli Surf200*, *Unli Surf100* and *Unli Surf50* for *SmartBro Plug-It Prepaid* subscribers with specific internet usage needs. We also have an additional array of load packages that offer per minute-based charging and longer validity periods.

SmartBro Share-It service 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.

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

SmartBro WiMAX service is available in Metro Manila and selected key cities in Visayas and Mindanao. *WiMAX*, which stands for Worldwide Interoperability for Microwave Access, is a wide area network technology that allows for a more efficient band use, interference avoidance and higher data rates over longer distances. *WiMAX* was initially being offered at Plan 999 for unlimited broadband usage with a burst speed of 1 Mbps. Additional unlimited broadband packages are now available under Plan 799 and Plan 1995.

Satellite and Other Services

Revenues from our satellite and other services decreased by Php614 million, or 42%, to Php845 million in the first nine months of 2010 from Php1,459 million in the same period in 2009 primarily due to lower satellite transponder rental revenues due to the sale of transponders by Mabuhay Satellite and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.60 for the nine months ended September 30, 2010 from Php47.93 for the nine months ended September 30, 2009 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

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 Php196 million, or 15%, to Php1,070 million in the first nine months of 2010 as compared with Php1,266 million in the same period in 2009 primarily due to the lower combined average retail price of cellular phonekits and SIM-packs, partly offset by increased sales of broadband data modems.

Expenses

Expenses associated with our wireless business in the first nine months of 2010 amounted to Php37,407 million, a decrease of Php906 million, or 2%, from Php38,313 million in the same period in 2009. A significant portion of this decrease was attributable to lower expenses related to asset impairment, rent, cost of sales, and selling and promotions, partially offset by higher expenses related to repairs and maintenance, depreciation and amortization, professional and other contracted services, and compensation and employee benefits. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 52% and 53% in the first nine months of 2010 and 2009, respectively.

Cellular business expenses accounted for 85% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 15% of our wireless business expenses in the first nine months of 2010 as compared with 86% and 14%, respectively, in the same period in 2009.

The following table summarizes the breakdown of our total wireless-related expenses for the nine months ended September 30, 2010 and 2009 and the percentage of each expense item to the total:

	2010		2009		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Depreciation and amortization	Php10,127	27	Php9,836	26	Php291	3
Rent	7,233	19	7,782	20	(549)	(7)
Compensation and employee benefits ⁽¹⁾	4,815	13	4,629	12	186	4
Repairs and maintenance	3,651	10	3,283	9	368	11
Selling and promotions	2,862	8	3,197	8	(335)	(10)
Cost of sales	2,748	7	3,184	8	(436)	(14)
Professional and other contracted services	2,145	6	1,875	5	270	14
Taxes and licenses	1,324	3	1,313	3	11	1
Communication, training and travel	685	2	723	2	(38)	(5)
Insurance and security services	593	2	549	2	44	8
Asset impairment	486	1	1,133	3	(647)	(57)
Amortization of intangible assets	75	–	99	–	(24)	(24)
Other expenses	663	2	710	2	(47)	(7)
Total	Php37,407	100	Php38,313	100	(Php906)	(2)

⁽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 Php291 million, or 3%, to Php10,127 million in the first nine months of 2010 principally due to increased depreciation on the growing asset base of 3G and 2G networks.

Rent expenses decreased by Php549 million, or 7%, to Php7,233 million primarily due to decrease in domestic leased circuits partially offset by the increase in co-location and cell site rental charges. In the first nine months of 2010, we had 5,778 cell sites, 9,733 cellular/mobile broadband base stations and 2,219 fixed wireless broadband-enabled base stations, as compared with 5,464 cell sites, 8,945 cellular/mobile broadband base stations and 2,006 fixed wireless broadband-enabled base stations in the same period in 2009.

Compensation and employee benefits expenses increased by Php186 million, or 4%, to Php4,815 million primarily due to higher salaries and employee benefits as a result of merit-based increases and higher MRP costs, partially offset by decreased provision for pension and LTIP benefits. Smart and subsidiaries employee headcount increased to 5,494 in the first nine months of 2010 as compared with 5,446 in the same period in 2009.

Repairs and maintenance expenses increased by Php368 million, or 11%, to Php3,651 million mainly due to an increase in cellular and broadband network and software maintenance expenses, higher site electricity cost and higher fuel costs for power generation, partly offset by lower computer hardware and office equipment maintenance costs.

Selling and promotion expenses decreased by Php335 million, or 10%, to Php2,862 million primarily due to lower spending on advertising and promotional campaigns and commission expenses.

Cost of sales decreased by Php436 million, or 14%, to Php2,748 million primarily due to the lower combined average cost of cellular phonekits and SIM-packs and lower average cost of retention packages, partly offset by higher sales volume of broadband data modems.

Professional and other contracted service fees increased by Php270 million, or 14%, to Php2,145 million primarily due to the increase in consultancy fees, management fees and other professional fees, partly offset by lower contracted service fees and customer relationship management service fees.

Taxes and licenses increased by Php11 million, or 1%, to Php1,324 million primarily due to higher real property taxes and business-related taxes and license fees.

Communication, training and travel expenses decreased by Php38 million, or 5%, to Php685 million primarily due to lower communication, training and travel expenses incurred in the first nine months of 2010.

Insurance and security services increased by Php44 million, or 8%, to Php593 million primarily due to higher site security expenses.

Asset impairment decreased by Php647 million, or 57%, to Php486 million mainly due to the impairment loss recognized on the investment in Blue Ocean Wireless in 2009, lower provision for uncollectible subscriber receivables and provision for obsolescence of slow-moving network inventory in the first nine months of 2010.

Amortization of intangible assets decreased by Php24 million, or 24%, to Php75 million primarily due to the full amortization of the technology application intangible asset relating to SBI as at August 2009.

Other expenses decreased by Php47 million, or 7%, to Php663 million primarily due to lower various business and operational-related expenses.

Other Income

The following table summarizes the breakdown of our total wireless-related other income for the nine months ended September 30, 2010 and 2009:

	2010	2009	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Equity share in net earnings of associates	Php1,285	Php277	Php1,008	364
Foreign exchange gains – net	800	118	682	578
Interest income	520	976	(456)	(47)
Gains (losses) on derivative financial instruments – net	(1)	1,166	(1,167)	(100)
Financing costs – net	(1,992)	(1,938)	(54)	3
Others	860	357	503	141
Total	Php1,472	Php956	Php516	54

Our wireless business segment's other income – net amounted to Php1,472 million in the first nine months of 2010, an increase of Php516 million, or 54%, as compared with Php956 million in the same period in 2009 primarily due to the combined effects of the following: (1) increase in equity share in net earnings of associates by Php1,008 million mainly due to the share in net earnings of Meralco and Beacon, as discussed below; (2) net increase in foreign exchange gains by Php682 million on account of higher gains on revaluation of foreign currency-denominated liabilities due to the effect of the appreciation of the Philippine peso to the U.S. dollar and increase in capitalized foreign exchange gains; (3) higher net financing costs by Php54 million primarily due to higher interest on loans and other related items on account of Smart's higher average loan balances and increase in accretion of financial liabilities; (4) decrease in interest income by Php456 million mainly due to Smart's lower average level of short-term investments and lower average dollar and peso placements; (5) net loss on derivative financial instruments of Php1 million in the first nine months of 2010 as against net gains of Php1,166 million in the same period in 2009 mainly due to a gain in the mark-to-market valuation relating to the derivative option of the exchangeable note purchased as part of the Meralco share acquisition by PCEV in 2009; and (6) increase in other income by Php503 million mainly due to a gain on sale of fixed assets.

In the nine months ended September 30, 2010, Meralco's reported and core income amounted to Php7,966 million and Php9,154 million, respectively, as compared with Php4,951 million and Php5,091 million, respectively, in the same period in 2009. These results reflect the higher volume of energy sold resulting from the surge in demand due to warmer temperature as well as higher demand from the commercial and industrial customers reflecting the improvement in economic activity. In addition, the results were boosted by the increase in billed customers as well as the later-than-scheduled implementation of the distribution rate adjustments approved by the Energy Regulatory Commission. PCEV's share in the reported and core income of Meralco (PCEV acquired 223 million Meralco shares on July 14, 2009, of which 154.2 million shares were transferred to Beacon, where PCEV acquired a 50% equity interest effective March 31, 2010), including share in Beacon's September 30, 2010 results of operations, amounted to Php1,284 million and Php1,566 million, respectively, in the first nine months of 2010. PCEV's share in Meralco's reported and core income for the period from July 14, 2009 to September 30, 2009 amounted to Php361 million and Php427 million, respectively.

Provision for Income Tax

Provision for income tax decreased by Php270 million, or 3%, to Php8,983 million in the first nine months of 2010 from Php9,253 million in the same period in 2009 due to lower taxable income. In the first nine months of 2010, the effective tax rate for our wireless business was 25% as compared with 26% in the same period in 2009. Smart and certain of its subsidiaries opted to use the optional standard deduction method in computing their taxable income in the first nine months of 2010 and 2009.

Net Income

Our wireless business segment recorded a net income of Php26,597 million in the first nine months of 2010, an increase of Php739 million, or 3%, from Php25,858 million recorded in the same period in 2009 on account of a decrease in wireless-related expenses by Php906 million, an increase in other income – net by Php516 million and lower provision for income tax by Php270 million, partially offset by a decrease in wireless revenues by Php953 million. Our wireless business segment's net income attributable to equity holders increased by Php1,320 million, or 5%, to Php26,518 million in the first nine months of 2010 from Php25,198 million in the same period in 2009 mainly due to the favorable effect of Smart's acquisition of equity interest from PCEV's non-controlling shareholders in 2009 complemented by an increase in net income. Our wireless business segment's core income increased by Php1,812 million, or 7%, to Php26,242 million in the first nine months of 2010 from Php24,430 million in the same period in 2009.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php37,043 million in the first nine months of 2010, a decrease of Php1,345 million, or 4%, from Php38,388 million in the same period in 2009. The following table summarizes our total revenues from our fixed line business for the nine months ended September 30, 2010 and 2009 by service segment:

	2010	%	2009	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Fixed Line Services:						
Service Revenues:						
Local exchange	Php11,559	31	Php11,739	31	(Php180)	(2)
International long distance	3,987	11	4,768	12	(781)	(16)
National long distance	3,401	9	4,686	12	(1,285)	(27)
Data and other network	16,605	45	15,965	42	640	4
Miscellaneous	1,225	3	1,056	3	169	16
	<u>36,777</u>	<u>99</u>	<u>38,214</u>	<u>100</u>	<u>(1,437)</u>	<u>(4)</u>
Non-Service Revenues:						
Sale of computers, PLDT Landline Plus, or PLP, units and SIM cards	266	1	174	–	92	53
Total Fixed Line Revenues	<u>Php37,043</u>	<u>100</u>	<u>Php38,388</u>	<u>100</u>	<u>(Php1,345)</u>	<u>(4)</u>

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 decreased by Php1,437 million, or 4%, to Php36,777 million in the first nine months of 2010 from Php38,214 million in the same period in 2009 due to decreases in revenues from our national long distance, international long distance and local exchange services, partially offset by the increase in revenues from our data and other network services as a result of higher revenues contributed by our DSL and i-Gate services, and miscellaneous services.

Local Exchange Service

The following table summarizes the key measures of our local exchange service business as at and for the nine months ended September 30, 2010 and 2009:

	2010	2009	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php11,559	Php11,739	(Php180)	(2)
Number of fixed line subscribers	1,839,962	1,787,441	52,521	3
Postpaid	1,709,919	1,579,534	130,385	8
Prepaid	130,043	207,907	(77,864)	(37)
Number of fixed line employees	8,047	8,117	(70)	(1)
Number of fixed line subscribers per employee	229	220	9	4

Revenues from our local exchange service decreased by Php180 million, or 2%, to Php11,559 million in the first nine months of 2010 from Php11,739 million in the same period in 2009 primarily owing to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and lower installation and service connection charges, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLDT Call All* service promotions related to PLP. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 32% and 31% in the first nine months of 2010 and 2009, respectively.

PLDT offers PLP, 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 free 600 local minutes and Php1,000 with free 1,000 local minutes for residential and business subscribers, respectively. As at September 30, 2010, there were a total of 301,307 active PLP subscribers, of which 263,434 and 37,873 were postpaid and prepaid subscribers, respectively, whereas there were a total of 189,232 active PLP subscribers as at September 30, 2009, of which 125,580 and 63,652 were postpaid and prepaid subscribers, respectively.

International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the nine months ended September 30, 2010 and 2009:

	2010	2009	Increase (Decrease)	
			Amount	%
Total international long distance service revenues (in millions)	Php3,987	Php4,768	(Php781)	(16)
Inbound	3,398	3,964	(566)	(14)
Outbound	589	804	(215)	(27)
International call volumes (in million minutes, except call ratio)	1,278	1,407	(129)	(9)
Inbound	1,123	1,253	(130)	(10)
Outbound	155	154	1	1
Inbound-outbound call ratio	7.2:1	8.1:1	-	-

Our total international long distance service revenues decreased by Php781 million, or 16%, to Php3,987 million in the first nine months of 2010 from Php4,768 million in the same period in 2009 primarily due to a decrease in the average collection and settlement rates, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.60 for the nine months ended September 30, 2010 from Php47.93 for the nine months ended September 30, 2009 and a decrease in call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 11% and 12% in the first nine months of 2010 and 2009, respectively.

Our revenues from inbound international long distance service decreased by Php566 million, or 14%, to Php3,398 million in the first nine months of 2010 from Php3,964 million in the same period in 2009 due to a decline in inbound call volumes and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar, since settlement charges for inbound calls are primarily billed in U.S. dollar.

Our revenues from outbound international long distance service decreased by Php215 million, or 27%, to Php589 million in the first nine months of 2010 from Php804 million in the same period in 2009 primarily due to lower average collection rate in dollar terms and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.60 for the nine months ended September 30, 2010 from Php47.93 for the nine months ended September 30, 2009, resulting in a decrease in the average billing rates to Php45.84 in the first nine months of 2010 from Php47.92 in the same period in 2009.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the nine months ended September 30, 2010 and 2009:

	2010	2009	Decrease	
			Amount	%
Total national long distance service revenues (in millions)	Php3,401	Php4,686	(Php1,285)	(27)
National long distance call volumes (in million minutes)	966	1,453	(487)	(34)

Our national long distance service revenues decreased by Php1,285 million, or 27%, to Php3,401 million in the first nine months of 2010 from Php4,686 million in the same period in 2009 primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute for our national long distance services due to cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues decreased to 9% in the first nine months of 2010 from 12% in the same period in 2009.

Data and Other Network Services

The following table shows information of our data and other network service revenues for the nine months ended September 30, 2010 and 2009:

	2010	2009	Increase (Decrease)	
			Amount	%
Data and other network service revenues (in millions)	Php16,605	Php15,965	Php640	4
Domestic	11,960	12,042	(82)	(1)
Broadband	6,327	5,256	1,071	20
DSL	6,138	5,099	1,039	20
WeRoam	189	157	32	20
Leased Lines and Others	5,633	6,786	(1,153)	(17)
International				
Leased Lines and Others	4,645	3,923	722	18
Subscriber base:				
Broadband	652,729	564,790	87,939	16
DSL	630,984	548,313	82,671	15
WeRoam	21,745	16,477	5,268	32

In the first nine months of 2010, our data and other network services posted revenues of Php16,605 million, an increase of Php640 million, or 4%, as compared with Php15,965 million in the same period in 2009 primarily due to increases in domestic data revenues, particularly broadband services owing to higher revenues from *PLDT DSL*, *Shops.Work Unplugged* or, *SWUP*, Internet Protocol Virtual Private Network, or IP-VPN and Metro Ethernet, and an increase in international data revenues, particularly from i-Gate, partially offset by decreases in leased line revenues mainly due to lower revenues from Diginet. The percentage contribution of this service segment to our fixed line service revenues increased to 45% in the first nine months of 2010 from 42% in the same period in 2009.

Domestic

Domestic data services contributed Php11,960 million in the first nine months of 2010, a decrease of Php82 million, or 1%, as compared with Php12,042 million in the same period in 2009 mainly due to lower Diginet revenues partially offset by the continued growth in DSL, SWUP, IP-VPN and Metro Ethernet subscribers as demand for offshoring and outsourcing services increased. The percentage contribution of domestic data service revenues to total data and other network services accounted for 72% and 75% in the first nine months of 2010 and 2009, respectively.

Broadband

Broadband data services include *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporate with multiple branches, and *PLDT WeRoam*, our broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies). Broadband data revenues amounted to Php6,327 million in the first nine months of 2010, an increase of Php1,071 million, or 20%, from Php5,256 million in the same period in 2009 primarily due to the higher revenue contribution of DSL which contributed revenues of Php6,138 million in the first nine months of 2010 from Php5,099 million in the same period in 2009 owing to the increase in the number of subscribers, partially offset by lower ARPU as a result of launching of lower-priced promotional plans. DSL revenues accounted for 37% and 32% of total data and other network service revenues in the first nine months of 2010 and 2009, respectively. DSL subscribers increased by 15% to 630,984 subscribers as at September 30, 2010 from 548,313 subscribers in the same period in 2009. *WeRoam* revenues amounted to Php189 million in the first nine months of 2010 from Php157 million in the same period in 2009 as subscribers increased by 32%, to 21,745 subscribers in the first nine months of 2010 from 16,477 subscribers in the same period in 2009.

Leased Lines and Others

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at September 30, 2010, *SWUP* has a total subscriber base of 14,690 compared with 11,091 subscribers as at the same period in 2009. Leased lines and other data revenues amounted to Php5,633 million in the first nine months of 2010, a decrease of Php1,153 million, or 17%, from Php6,786 million in the same period in 2009 primarily due to decrease in Diginet revenues partially offset by higher revenues from Metro

Ethernet and IP-VPN. The percentage contribution of leased lines and other data service revenues to total data and other network services accounted for 34% and 42% in the first nine months of 2010 and 2009, respectively.

International

Leased Lines and Others

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other Global Service Providers, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues increased by Php722 million, or 18%, to Php4,645 million in the first nine months of 2010 from Php3,923 million in the same period in 2009 primarily due to an increase in i-Gate revenues. The percentage contribution of international data service revenues to total data and other network service revenues accounted for 28% and 25% in the first nine months of 2010 and 2009, respectively.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. In the first nine months of 2010, these service revenues increased by Php169 million, or 16%, to Php1,225 million from Php1,056 million in the same period in 2009 mainly due to an increase in rental income owing to higher co-location charges and facilities management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of the first nine months of 2010 and 2009.

Non-service Revenues

Non-service revenues increased by Php92 million, or 53%, to Php266 million in the first nine months of 2010 from Php174 million in the same period in 2009 primarily due to higher sales of PLP units and SIM cards.

Expenses

Expenses related to our fixed line business totaled Php28,291 million in the first nine months of 2010, a decrease of Php7 million as compared with Php28,298 million in the same period in 2009. The decrease was primarily due to lower asset impairment, compensation and employee benefits, rent and selling and promotions expenses, partly offset by increases in professional and other contracted services, depreciation and amortization, repairs and maintenance, and cost of sales. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 76% and 74% in the first nine months of 2010 and 2009, respectively.



The following table shows the breakdown of our total fixed line-related expenses for the nine months ended September 30, 2010 and 2009 and the percentage of each expense item to the total:

	2010		2009		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Depreciation and amortization	Php9,267	33	Php8,860	31	Php407	5
Compensation and employee benefits ⁽¹⁾	7,497	27	7,683	27	(186)	(2)
Repairs and maintenance	3,159	11	2,984	11	175	6
Professional and other contracted services	2,274	8	1,582	6	692	44
Rent	2,069	7	2,169	8	(100)	(5)
Asset impairment	982	4	2,060	7	(1,078)	(52)
Selling and promotions	919	3	990	3	(71)	(7)
Taxes and licenses	608	2	600	2	8	1
Communication, training and travel	456	2	451	2	5	1
Cost of sales	369	1	197	1	172	87
Insurance and security services	325	1	384	1	(59)	(15)
Other expenses	366	1	338	1	28	8
Total	Php28,291	100	Php28,298	100	(Php7)	-

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

Depreciation and amortization charges increased by Php407 million, or 5%, to Php9,267 million due to a higher depreciable asset base in the first nine months of 2010 as compared with the same period in 2009.

Compensation and employee benefits expenses decreased by Php186 million, or 2%, to Php7,497 million primarily due to lower provisions for pension costs and LTIP, partially offset by higher salaries and employee benefits due to collective bargaining agreement-related increases.

Repairs and maintenance expenses increased by Php175 million, or 6%, to Php3,159 million primarily due to higher electricity charges, domestic cable and wire facilities, and higher building repairs and maintenance costs.

Professional and other contracted services increased by Php692 million, or 44%, to Php2,274 million primarily due to higher legal fees and contracted service fees for customer relationship management outsourcing project services, partially offset by lower management fees.

Rent expenses decreased by Php100 million, or 5%, to Php2,069 million due to a decrease in international leased circuit and pole rental charges, partially offset by an increase in site and domestic leased circuit rental charges.

Asset impairment decreased by Php1,078 million, or 52%, to Php982 million mainly due to impairment loss on prepaid transponder lease to ProtoStar in 2009 partially offset by higher impairment charges on payphone assets, investments and provision for uncollectible customer receivables in the first nine months of 2010.

Selling and promotion expenses decreased by Php71 million, or 7%, to Php919 million primarily due to lower spending on advertising and promotions, and commission expenses, partially offset by higher public relations in the first nine months of 2010.

Taxes and licenses increased by Php8 million, or 1%, to Php608 million as a result of higher business-related taxes.

Communication, training and travel expenses increased by Php5 million, or 1%, to Php456 million mainly due to higher foreign and local training expenses, local travel expenses and fuel consumption, partially offset by lower foreign travel expenses, and mailing and courier charges.

Cost of sales increased by Php172 million, or 87%, to Php369 million due to higher cost of SIM and PLP units sold for PLP prepaid subscribers partially offset by lower computer-bundled sales in relation to our DSL promotion.

Insurance and security services decreased by Php59 million, or 15%, to Php325 million primarily due to lower insurance and bond premiums, and lower security services.

Other expenses increased by Php28 million, or 8%, to Php366 million due to increases in various business and fixed line operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our total fixed line-related other expenses for the nine months ended September 30, 2010 and 2009:

	2010	2009	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Foreign exchange gains – net	Php922	Php104	Php818	787
Interest income	382	318	64	20
Equity share in net losses of joint ventures	–	(72)	72	100
Losses on derivative financial instruments – net	(499)	(1,705)	1,206	71
Financing costs – net	(2,941)	(2,710)	(231)	9
Others	466	442	24	5
Total	(Php1,670)	(Php3,623)	Php1,953	54

Our fixed line business segment's other expenses – net amounted to Php1,670 million in the first nine months of 2010, a decrease of Php1,953 million, or 54%, from Php3,623 million in the same period in 2009. The change was due to the combined effects of the following: (i) lower loss on derivative financial instruments by Php1,206 million in the first nine months of 2010 as compared with the same period in 2009 due to the mark-to-market valuation on principal-only currency swaps; (ii) net increase in foreign exchange gains by Php818 million on account of higher gains on foreign exchange revaluation of foreign-currency denominated liabilities due to the effect of the appreciation of the Philippine peso to the U.S. dollar; (iii) lower share in net losses of joint ventures of Php72 million; (iv) an increase in interest income by Php64 million; and (v) an increase in net financing costs by Php231 million due to an increase in interest expense on loans and related items – net on account of higher level of average loan balances as well as lower capitalized interest, partially offset by lower level of average interest rate.

Provision for Income Tax

Provision for income tax amounted to Php2,011 million in the first nine months of 2010, an increase of Php207 million, or 11%, as compared with Php1,804 million in the same period in 2009 primarily due to higher taxable income.

Net Income

In the first nine months of 2010, our fixed line business segment contributed a net income of Php5,071 million, an increase of Php408 million, or 9%, as compared with Php4,663 million in the same period in 2009 primarily as a result of decreases in other expenses – net by Php1,953 million and lower fixed line-related expenses by Php7 million, partially offset by a decrease in fixed line revenues

by Php1,345 million and higher provision for income tax by Php207 million. Our fixed line business segment's net income attributable to equity holders increased by Php406 million, or 9%, to Php5,063 million in the first nine months of 2010 from Php4,657 million in the same period in 2009. On the other hand, our fixed line business segment's core income decreased by Php1,674 million, or 26%, to Php4,686 million in the first nine months of 2010 from Php6,360 million in the same period in 2009.

Information and Communications Technology

Revenues

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

In the first nine months of 2010, our ICT business generated revenues of Php8,261 million, a decrease of Php125 million, or 1%, as compared with Php8,386 million in the same period in 2009. This decrease was primarily due to the decline in the revenue contribution of our customer relationship management, and internet and online gaming businesses, and decline in point-product sales, partially offset by the continued growth of our data center and knowledge processing solutions businesses' service revenues.

The following table summarizes our total revenues from our ICT business for the nine months ended September 30, 2010 and 2009 by service segment:

	2010	%	2009 (in millions)		Increase (Decrease)	
					Amount	%
Service Revenues:						
Knowledge processing solutions	Php3,876	47	Php3,837	46	Php39	1
Customer relationship management	2,152	26	2,474	29	(322)	(13)
Internet and online gaming	780	10	830	10	(50)	(6)
Data center and others	1,096	13	816	10	280	34
	<u>7,904</u>	<u>96</u>	<u>7,957</u>	<u>95</u>	<u>(53)</u>	<u>(1)</u>
Non-Service Revenues:						
Point-product sales	<u>357</u>	<u>4</u>	<u>429</u>	<u>5</u>	<u>(72)</u>	<u>(17)</u>
Total ICT Revenues	<u>Php8,261</u>	<u>100</u>	<u>Php8,386</u>	<u>100</u>	<u>(Php125)</u>	<u>(1)</u>

Service Revenues

Service revenues generated by our ICT business segment amounted to Php7,904 million in the nine months ended September 30, 2010, a decrease of Php53 million, or 1%, as compared with Php7,957 million in the same period in 2009 primarily as a result of a decline in revenues from our customer relationship management and internet and online gaming businesses. This was partially offset by an increase in co-location and disaster recovery revenues from our data center business and increase in revenues from our knowledge processing solutions business. As a percentage of our total ICT business revenues, service revenues increased to 96% in the first nine months of 2010 from 95% in the same period in 2009.

Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. The knowledge processing solutions business contributed revenues of Php3,876 million in the nine months ended September 30, 2010, an increase of Php39 million, or 1%, from Php3,837 million in the same period in 2009. Dollar revenues increased by 7% partially offset by the appreciation of peso to the U.S.

dollar by 5%. Knowledge processing solutions business revenues accounted for 49% and 48% of total service revenues of our ICT business in the nine months ended September 30, 2010 and 2009, respectively.

Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. Revenues relating to our customer relationship management business decreased by Php322 million, or 13%, to Php2,152 million in the first nine months of 2010 from Php2,474 million in the same period in 2009 primarily due to lower domestic sales by 4% and international dollar-denominated revenues by 10% and the effect of the appreciation of the Philippine peso to the U.S. dollar. In total, we own and operate approximately 7,160 seats with an average of 4,660 customer service representatives, or CSRs, in the first nine months of 2010 as compared with approximately 7,170 seats with an average of 4,880 CSRs in the same period in 2009. As at September 30, 2010 and 2009, SPi CRM had seven customer interaction solution sites. Customer relationship management business revenues accounted for 27% and 31% of total service revenues of our ICT business in the first nine months of 2010 and 2009, respectively.

Internet and Online Gaming

Revenues from our internet and online gaming business decreased by Php50 million, or 6%, to Php780 million in the first nine months of 2010 from Php830 million in the same period in 2009 primarily due to lower online gaming revenues on account of a decrease in publishing revenues as a result of more competitive games in the market, the power outages throughout the country during the first half of the year and increase in electricity costs which resulted to shortening of operating hours of internet cafés. Our internet and online gaming business revenues accounted for 10% and 11% of total service revenues of our ICT business in the first nine months of 2010 and 2009, respectively.

Data Center and Others

ePLDT operates an internet data center under the brand name *Vitro*TM, which provides co-location or rental services, server hosting, 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 2010, our data center contributed revenues of Php1,096 million, an increase of Php280 million, or 34%, from Php816 million in the same period in 2009 primarily due to an increase in co-location or rental and disaster recovery services revenues. Our data center revenues accounted for 14% and 10% of total service revenues of our ICT business in the first nine months of 2010 and 2009, 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 2010, non-service revenues generated by our ICT business decreased by Php72 million, or 17%, to Php357 million from Php429 million in the same period in 2009 primarily due to lower revenues from sales of software licenses.

Expenses

Expenses associated with our ICT business totaled Php7,931 million in the first nine months of 2010, a decrease of Php369 million, or 4%, as compared with Php8,300 million in the same period in 2009 primarily due to lower compensation and employee benefits, cost of sales, professional and other

contracted services, rent and depreciation and amortization expenses, partially offset by higher repairs and maintenance expenses, asset impairment and amortization of intangible assets. As a percentage of our total ICT revenues, expenses related to our ICT business accounted for 96% and 99% in the first nine months of 2010 and 2009, respectively.

The following table shows the breakdown of our total ICT-related expenses for the nine months ended September 30, 2010 and 2009 and the percentage of each expense item to the total:

	2010	%	2009	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Compensation and employee benefits ⁽¹⁾	Php4,533	57	Php4,848	58	(Php315)	(6)
Depreciation and amortization	559	7	570	7	(11)	(2)
Repairs and maintenance	549	7	489	6	60	12
Rent	512	6	541	7	(29)	(5)
Cost of sales	444	6	529	6	(85)	(16)
Professional and other contracted services	377	5	427	5	(50)	(12)
Communication, training and travel	341	4	351	4	(10)	(3)
Amortization of intangible assets	193	2	182	2	11	6
Taxes and licenses	83	1	81	1	2	2
Selling and promotions	76	1	79	1	(3)	(4)
Asset impairment	66	1	28	–	38	136
Insurance and security services	58	1	48	1	10	21
Other expenses	140	2	127	2	13	10
Total	Php7,931	100	Php8,300	100	(Php369)	(4)

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

Compensation and employee benefits decreased by Php315 million, or 6%, to Php4,533 million mainly due to a decline in salaries and employee benefits as a result of lower salaries and benefits, and lower provision for LTIP, partially offset by the increase in MRP costs and pension benefits. ePLDT and subsidiaries' employee headcount increased by 251 to 16,083 in the nine months ended September 30, 2010 as compared with 15,832 in the same period in 2009.

Depreciation and amortization charges decreased by Php11 million, or 2%, to Php559 million primarily due to a decrease in the depreciable asset base of our customer relationship management and knowledge processing solutions businesses on account of higher fully depreciated assets and lower capital expenditures, partially offset by higher depreciation in relation to Data Center expansion.

Repairs and maintenance expenses increased by Php60 million, or 12%, to Php549 million primarily due to higher office and site electricity charges, and higher site facilities and IT software repairs and maintenance costs, partially offset by a decrease in janitorial services and lower purchases of low-value hardware.

Rent expenses decreased by Php29 million, or 5%, to Php512 million primarily due to lower office building rental charges partially offset by higher co-location and site rental charges.

Cost of sales decreased by Php85 million, or 16%, to Php444 million primarily due to lower volume of sales of software licenses and hardware products.

Professional and other contracted services decreased by Php50 million, or 12%, to Php377 million primarily due to lower contracted service fees incurred by our knowledge processing solutions business.

Communication, training and travel expenses decreased by Php10 million, or 3%, to Php341 million primarily due to lower local and foreign travel and training expenses, and communications

charges by our customer relationship management business, and lower mailing and courier charges from our knowledge processing solutions business, partially offset by higher trunk line charges by our data center business.

Amortization of intangible assets increased by Php11 million, or 6%, to Php193 million due to intangible assets recognized in relation to the acquisition of Laguna Medical and additional game licenses acquired by our gaming business in late 2009 and in the first nine months of 2010.

Taxes and licenses increased by Php2 million, or 2%, to Php83 million primarily due to higher business-related taxes.

Selling and promotion expenses decreased by Php3 million, or 4%, to Php76 million mainly due to our gaming business' lower promotional expenses due to timing of its new major games in 2009 as compared with 2010 and decrease in commission and advertising expenses of our knowledge processing solutions business, partially offset by higher advertisements by our customer relationship management business.

Asset impairment increased by Php38 million, or 136%, to Php66 million primarily due to impairment provision on unutilized input VAT of our customer relationship management business and higher provision for uncollectible receivables in the first nine months of 2010.

Insurance and security services increased by Php10 million, or 21%, to Php58 million primarily due to higher security services and insurance premiums.

Other expenses increased by Php13 million, or 10%, to Php140 million mainly due to higher various business and ICT operational-related costs.

Other Income

The following table summarizes the breakdown of our total ICT-related other income for the nine months ended September 30, 2010 and 2009:

	2010	2009	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Equity share in net earnings of associates	Php134	Php106	Php28	26
Interest income	26	20	6	30
Gains on derivative financial instruments – net	5	5	–	–
Foreign exchange gains (losses) – net	(55)	10	(65)	(650)
Financing costs – net	(132)	(128)	(4)	3
Others	62	228	(166)	(73)
Total	Php40	Php241	(Php201)	(83)

Our ICT business segment's other income – net amounted to Php40 million in the first nine months of 2010, a decrease of Php201 million, or 83%, from Php241 million in the same period in 2009 primarily due to the combined effects of the following: (i) net foreign exchange losses of Php55 million in the first nine months of 2010 as against net foreign exchange gains of Php10 million in the same period in 2009 due to the revaluation of net foreign currency-denominated assets as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar in the first nine months of 2010; (ii) an increase in financing costs – net by Php4 million; (iii) an increase in interest income of Php6 million; (iv) an increase in equity share in net earnings of associates by Php28 million; and (v) a decrease in other income by Php166 million mainly due to the de-recognition of liabilities in 2009 partly offset by insurance claims received in the first nine months of 2010.

Provision for (Benefit from) Income Tax

Net benefit from income tax of Php20 million in the nine months ended September 30, 2010 as against provision for income tax of Php162 million in the same period in 2009 primarily due to lower net taxable income.

Net Income

In the first nine months of 2010, our ICT business segment registered a net income of Php390 million, an increase of Php225 million from Php165 million in the same period in 2009 mainly as a result of a decrease in ICT-related expenses by Php369 million, net benefit from income tax of Php20 million in 2010 as against a provision for income tax of Php162 million in the same period in 2009, partially offset by a decrease in ICT revenues by Php125 million. Our ICT business segment's net income attributable to equity holders increased by Php242 million to Php407 million in the first nine months of 2010 as compared with Php165 million in the same period in 2009. Our ICT business segment's core income amounted to Php495 million in the first nine months of 2010, an increase of Php332 million, or 204%, as compared with Php163 million in the same period in 2009.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the nine months ended September 30, 2010 and 2009 as well as our consolidated capitalization and other consolidated selected financial data as at September 30, 2010 and December 31, 2009:

	<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
	(Unaudited)	
(in millions)		
Cash Flows		
Net cash provided by operating activities	Php54,026	Php56,326
Net cash used in investing activities	15,502	36,157
<i>Capital expenditures</i>	<i>16,923</i>	<i>18,064</i>
Net cash used in financing activities	49,676	26,797
Net decrease in cash and cash equivalents	11,417	6,747
	<u>September 30,</u>	<u>December 31,</u>
	<u>2010</u>	<u>2009</u>
	(Unaudited) (Audited)	
(in millions)		
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php80,773	Php86,066
Obligations under finance lease	9	13
	<u>80,782</u>	<u>86,079</u>
Current portion of interest-bearing financial liabilities:		
Notes payable	–	2,279
Long-term debt maturing within one year	12,687	10,384
Obligations under finance lease maturing within one year	33	51
	<u>12,720</u>	<u>12,714</u>
Total interest-bearing financial liabilities	93,502	98,793
Total equity attributable to equity holders of PLDT	88,690	98,575
	<u>Php182,192</u>	<u>Php197,368</u>
Other Selected Financial Data		
Total assets	Php265,096	Php280,148
Property, plant and equipment	158,033	161,256
Cash and cash equivalents	26,902	38,319
Short-term investments	3,366	3,824

As at September 30, 2010, our consolidated cash and cash equivalents and short-term investments totaled Php30,268 million. Principal sources of consolidated cash and cash equivalents in the first nine months of 2010 were cash flows from operating activities amounting to Php54,026 million, net proceeds from maturity of short-term investments of Php445 million, proceeds from availment of long-term debt of Php7,246 million and interest received of Php929 million. These funds were used principally for: (1) dividend payments of Php40,947 million; (2) capital outlays of Php16,923 million; (3) total debt principal and interest payments of Php10,732 million and Php4,124 million, respectively; and (4) settlement of derivative financial instruments of Php969 million.

Operating Activities

Our consolidated net cash flows from operating activities in the first nine months of 2010 decreased by Php2,300 million, or 4%, to Php54,026 million from Php56,326 million in the same period in 2009 primarily due to higher level of settlement of various payables, partially offset by higher collection of receivables.

A significant 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 2010 and 2009. Revenues from our fixed line and ICT businesses accounted for 32% and 7%, respectively, of our total service revenues in each of the first nine months of 2010 and 2009.

Cash flows from operating activities of our wireless business amounted to Php36,161 million in the first nine months of 2010, a decrease of Php7,865 million, or 18%, as compared with Php44,026 million in the same period in 2009. The decrease in our wireless business segment's cash flows from operating activities was a result of a higher level of outstanding receivables in the first nine months of 2010, mainly from dealers, carriers and subscribers, LTIP payout in 2010 and a higher net settlement of other payables in the first nine of 2010. Likewise, cash flows from operating activities of our ICT business decreased by Php54 million, or 5%, to Php1,102 million in the first nine months of 2010 from Php1,156 million in the same period in 2009 mainly due to higher working capital requirements in the first nine months of 2010. On the other hand, cash flows provided by operating activities of our fixed line business amounted to Php16,776 million in the first nine months of 2010, an increase of Php5,635 million, or 51%, as compared with Php11,141 million in the same period in 2009 primarily due to higher collection of accounts receivables and absence of pension contributions made to the beneficial trust fund, partially offset by LTIP payout in 2010 and higher level of settlement of other current liabilities in the first nine months of 2010.

Investing Activities

Consolidated net cash used in investing activities amounted to Php15,502 million in the first nine months of 2010, a decrease of Php20,655 million, or 57%, as compared with Php36,157 million in the same period in 2009 primarily due to the combined effects of the following: (1) lower purchase of investment in subsidiaries and associates of Php25,632 million; (2) decrease in capital expenditures by Php1,141 million in the first nine months of 2010; (3) higher dividends received in 2010 of Php437 million, as discussed below; (4) lower net proceeds from the maturity of short-term investments by Php4,750 million; (5) lower net proceeds of investments in debt securities by Php836 million; (6) lower proceeds from disposal of fixed assets of Php612 million; and (7) lower interest received of Php265 million.

Our consolidated capital expenditures in the first nine months of 2010 totaled Php16,923 million, a decrease of Php1,141 million, or 6%, as compared with Php18,064 million in the same period in 2009 primarily due to decreases in PLDT's and Smart's capital spending. PLDT's capital spending of Php7,144 million in the first nine months of 2010 was principally used to finance the expansion and upgrade of its domestic fiber optic network facilities, NGN roll-out, fixed line data and IP-based

network services and outside plant rehabilitation. Smart's capital spending of Php9,123 million in the first nine months of 2010 was used primarily to build a secondary network for unlimited services, expand its 3G broadband network, and to further upgrade its core, access and transmission network facilities. ePLDT and its subsidiaries' capital spending of Php508 million in the first nine months of 2010 was primarily used to fund the continued expansion of its customer relationship management 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.

Dividends received in the first nine months of 2010 amounted to Php445 million, an increase of Php437 million, as compared with Php8 million in the same period in 2009. The dividends received in the first nine months of 2010 were mainly from Meralco, Philweb, Inc. and ePDS, Inc. amounting to Php393 million, Php33 million and Php19 million, respectively, while the dividends received in the first nine months of 2009 were mainly from ePDS, Inc. and Meralco amounting to Php5 million and Php3 million, respectively.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php49,676 million in the first nine months of 2010, an increase of Php22,879 million, or 85%, as compared with Php26,797 million in the same period in 2009 resulting largely from the combined effects of the following: (1) lower proceeds from the issuance of long-term debt and notes payable by Php26,743 million in the first nine months of 2010; (2) lower net proceeds of capital expenditures under long-term financing by Php885 million; (3) higher cash dividend payments by Php1,753 million; (4) higher interest payments by Php376 million; (5) lower repayments of long-term debt and notes payable by Php4,468 million; (6) lower share buyback in the first nine months of 2010 by Php1,723 million; and (7) lower settlement of derivative financial instruments by Php668 million.

Debt Financing

Our consolidated long-term debt decreased by Php2,990 million to Php93,460 million in the first nine months of 2010 mainly due to debt amortizations and prepayments partially offset by proceeds from the availment of long-term debt during the period. Total long-term debt of PLDT and Smart decreased by 5% and less than 1% to Php51,101 million and Php42,235 million, respectively, as at September 30, 2010 as compared with December 31, 2009.

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010 to mature on July 13, 2015. Proceeds from the facility will be used to finance capital expenditures and/or to refinance its loan obligations which were also used to finance capital expenditures for network expansion and improvement.

On July 13, 2010, Smart issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010 to mature on July 13, 2015. Proceeds from the facility will be used to finance Smart's capital expenditures for network improvement and expansion.

Approximately Php46,643 million principal amount of our consolidated outstanding long-term debt as at September 30, 2010 is scheduled to mature over the period from 2010 to 2013. Of this amount, Php26,345 million is attributable to Smart, Php20,174 million to PLDT, and the remainder to ePLDT.

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

Debt Covenants

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

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

Financing Requirements

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

Consolidated cash dividend payments in the first nine months of 2010 amounted to Php40,947 million as compared with Php39,194 million paid to shareholders in the same period in 2009. On August 3, 2010, we declared a regular cash dividend of Php78 per share, representing an approximately 70% payout of our 2010 core earnings per share as at June 30, 2010. On August 4, 2009, we declared a regular cash dividend of Php77 per share and on March 2, 2010, we declared regular and special cash dividends of Php76 and Php65 per share, respectively, representing in aggregate approximately a 100% payout of our 2009 core earnings per share.

Off-Statement of Financial Position Arrangements

There are no off-statement of 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 from the exercise by certain officers and executives of stock options in the first nine months of 2009. 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 raised Php2 million in each of the first nine months of 2010 and 2009 from this source.

As part of our goal to maximize returns to our shareholders, we obtained in 2008 an approval from the Board of Directors to conduct a share buyback program for up to five million PLDT common shares. As at September 30, 2010 and December 31, 2009, we had acquired a total of approximately 2.7 million shares of PLDT's common stock at a weighted average price of Php2,387 per share for a total consideration of Php6,405 million. Please see to *Note 8 – Earnings Per Common Share*, *Note 19 – Equity* and *Note 28 – Financial Assets and Liabilities* of the accompanying unaudited consolidated financial statements for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

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

Commercial Commitments

As at September 30, 2010 and December 31, 2009, our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php229 million and Php1,317 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, 2010 and June 30, 2010:

	Fair Values	
	September 30, 2010	June 30, 2010
	(Unaudited)	
(in millions)		
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities	Php76	Php67
Unlisted equity securities	64	63
Investments in debt securities	493	485
Advances and refundable deposits – net of current portion	873	928
Total noncurrent financial assets	1,506	1,543
Current Financial Assets		
Cash and cash equivalents	26,902	28,878
Short-term investments	3,366	698
Investment in debt securities	405	–
Trade and other receivables - net	15,171	15,415
Derivative financial assets	9	5
Current portion of advances and refundable deposits	16	16
Total current financial assets	45,869	45,012
Total Financial Assets	Php47,375	Php46,555
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php86,145	Php86,731
Derivative financial liabilities	2,366	1,361
Customers' deposits	1,576	1,395
Deferred credits and other noncurrent liabilities	10,705	10,753
Total noncurrent financial liabilities	100,792	100,240
Current Financial Liabilities		
Accounts payable	17,636	14,995
Accrued expenses and other current liabilities	28,371	26,923
Interest-bearing financial liabilities	12,720	11,148
Dividends payable	2,139	1,852
Total current financial liabilities	60,866	54,918
Total Financial Liabilities	Php161,658	Php155,158

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, 2010 and the six months ended June 30, 2010:

	September 30, 2010	June 30, 2010
	(Unaudited)	
(in millions)		
Profit and Loss		
Interest income	Php914	Php612
Gains (losses) on derivative financial instruments – net	(495)	934
Accretion on financial liabilities – net	(885)	(567)
Interest on loans and other related items	(4,668)	(3,142)
Other Comprehensive Income		
Net gains on available-for-sale financial assets	20	8
	(Php5,114)	(Php2,155)

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 2010 was 4.1% as compared with 3.4% in the same period in 2009. We expect inflation to be steady until the end of the year.

PART II – OTHER INFORMATION

Reorganization of ePLDT

On July 7, 2010, our Board of Directors approved the reorganization of the ePLDT Group into two business groups: (i) the ICT business group which provides data center services, internet and online gaming services and business solutions and applications; and (ii) the BPO business group which would cover customer relationship management or call center operations under SPi CRM and Content Solutions, Medical Billing and Coding and Medical Transcription services under SPi Technologies, Inc., or SPi. The BPO business group would be eventually transferred to PLDT subject to finalization of the terms and conditions thereof and execution of relevant agreements.

Transfer of PCEV's Equity Interest in Meralco

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

Investment in Beacon

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

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

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

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

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

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

Although PCEV secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of PCEV's capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, PCEV recognized as an asset the deposit for future stock subscription of Php23,130 million for its subscription to 1,156.5 million common shares of Beacon. The deposit for future stock subscription was eventually reclassified to investment account when Beacon's increase in authorized capital stock was approved by the Philippine SEC.

The subscription price of PCEV's and MPIC's subscription to Beacon shares was offset in full (in the case of PCEV) and in part (in the case of MPIC) against the consideration for the transfer of Meralco shares held by PCEV and MPIC as described in "Transfer of Meralco Shares to Beacon" section below. In addition, MPIC settled its remaining balance in cash. On May 12, 2010, PCEV also completed the purchase from MPIC of 12,500 shares or 50% of the 25,000 Beacon common shares originally owned by MPIC.

Transfer of Meralco Shares to Beacon

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

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

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

The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the Philippine Stock Exchange.

Although PCEV secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of PCEV's capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, PCEV recognized a Php15,084 million investment (initially recognized as deposit for future stock subscription, see discussion above) in Beacon representing the proportionate carrying cost of the 154.2 million Meralco shares transferred to Beacon under the OA. PCEV recognized a deferred gain of Php8,046 million for the difference between the Php23,130 million transfer price of the Meralco shares to Beacon and the Php15,084 million carrying amount in PCEV's books of the Meralco shares transferred. The deferred gain, presented as a reduction in PCEV's investment in Beacon, will only be realized upon the disposal of the investment to a third party.

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

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

Call Option

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

The Call Option was exercisable at the option of Beacon during the period from March 15, 2010 until midnight of May 15, 2010. The exercise price for the Option Shares was Php300 per share or an aggregate exercise price of Php22,410 million.

Beacon exercised the Call Option on March 30, 2010 and FPHC transferred the 74.7 million shares of Meralco common stock to Beacon in consideration of the payment by Beacon of Php22,410 million in cash on March 30, 2010.

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

Property Dividends

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

Governance Arrangements

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

On March 30, 2010, Beacon also entered into an Php18,000 million ten-year corporate notes facility with First Metro Investment Corporation and PNB Capital and Investment Corporation as joint lead arrangers and various local financial institutions as noteholders. The proceeds of the notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option. As at September 30, 2010, the amount drawn under this facility amounted to Php16,200 million (Php16,022 million, net of debt issuance cost of Php178 million); the remaining undrawn balance amounted to Php1,800 million.

As at September 30, 2010, Beacon held 393 million Meralco common shares representing approximately 35% equity interest in Meralco with market value of Php88,425 million based on a quoted price of Php225 per share.

Related Party Transactions

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

ANNEX – AGING OF ACCOUNTS RECEIVABLE

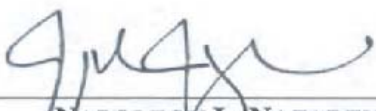
The following table shows the aging of our consolidated receivables as at September 30, 2010:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
(In Millions)					
Corporate subscribers	Php8,692	Php2,002	Php972	Php316	Php5,402
Retail subscribers	8,587	1,914	1,722	659	4,292
Foreign administrations	4,105	1,347	1,224	356	1,178
Domestic carriers.....	2,095	151	174	171	1,599
Dealers, agents and others	4,868	4,233	60	50	525
Total	Php28,347	Php9,647	Php4,152	Php1,552	Php12,996
Less: Allowance for doubtful accounts	<u>13,176</u>				
Total Receivables - net	<u>Ph15,171</u>				

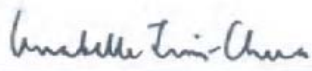
SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the third quarter of 2010 to be signed on its behalf by the undersigned thereunto duly authorized.

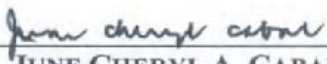
Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

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 4, 2010