

PHILIPPINE LONG DISTANCE TELEPHONE CO

Form 6-K

November 04, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6 -K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

Of the Securities Exchange Act of 1934

For the month of November 2008

Commission File Number 1-03006

Philippine Long Distance Telephone Company

(Exact Name of Registrant as specified in its Charter)

Ramon Cojuangco Building

Makati Avenue

Makati City

Philippines

(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F: Form 40-F:

(Indicate by check mark whether by furnishing the information contained in this form, the registrant is also thereby furnishing the information to the commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act 1934.)

Yes: No:

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):
82-_____)

Enclosure:

Announcement date: November 4, 2008

Exhibit 1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations

Consolidated Financial Statements as at September 30, 2008 (unaudited) and
December 31, 2007 (audited) and for the nine months ended September 30, 2008
and 2007

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

By: /s/ Ma. Lourdes C. Rausa-Chan
Ma. Lourdes C. Rausa-Chan
Senior Vice President, Corporate Affairs and Legal Services Head and Corporate Secretary

PW-55

SEC Number
File Number

**PHILIPPINE LONG DISTANCE
TELEPHONE COMPANY**

(Company's Full Name)

**Ramon Cojuangco Building
Makati Avenue, Makati City**

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)

(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

September 30, 2008

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

November 4, 2008

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

Attention: Director Justina Callangan

Corporations Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code, we submit herewith three (3) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited financial statements of the Company for the nine (9) months ended September 30, 2008.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

/s/ Ma. Lourdes C. Rausa-Chan

MA. LOURDES C. RAUSA-CHAN

Corporate Secretary

COVER SHEET

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

PHILIPPINE LONG DISTANCE

TELEPHONE COMPANY

(Company's Full Name)

RAMON C OJUANGCO BLDG.

MAKATI AVE. MAKATI CITY

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

JUNE CHERYL A. CABAL-FURIGAY	816-8534
Contact Person	Company Telephone Number

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

SRC 17 (2) (b) THEREUNDER

1. For the quarterly period ended September 30, 2008

-

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

4. Philippine Long Distance Telephone Company

Exact name of registrant as specified in its charter

5. Republic of the Philippines

Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

7. Ramon Cojuangco Building, Makati Avenue, Makati City 0721

Address of registrant's principal office Postal Code

8. (632) 816-8556

Registrant's telephone number, including area code

9. Not Applicable

Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class Number of Shares of Common Stock Outstanding

-

Common Capital Stock, Php5 par value 187,681,652 shares as at September 30, 2008

-

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

Yes 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

TABLE OF CONTENTS

Page

PART I - FINANCIAL INFORMATION 1

Item 1... Financial Statements 1

Item 2 Management's Discussion and Analysis of Financial

Condition and Results of Operations 1

Financial Highlights and Key Performance Indicators 2

Overview 3

Results of Operations 4

Wireless 5

Total Revenues and Other Income 5

Expenses 12

Provision for Income Tax 14

Net Income 15

Fixed Line 15

Total Revenues and Other Income 15

Expenses 20

Provision for Income Tax 21

Net Income 22

Information and Communications Technology 22

Total Revenues and Other Income 22

Expenses 24

Benefit from Income Tax 26

Net Loss 26

Liquidity and Capital Resources 27

Operating Activities 27

Investing Activities 28

Financing Activities 29

Contractual Obligations and Commercial Commitments 31

Quantitative and Qualitative Disclosures about Market Risks 32

Impact of Inflation and Changing Prices 32

PART II OTHER INFORMATION 32

Related Party Transactions 32

ANNEX Aging of Accounts Receivable A-1

SIGNATURES S-1

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Our consolidated financial statements as at September 30, 2008 (unaudited) and December 31, 2007 (audited) and for the nine months ended September 30, 2008 and 2007 (unaudited) and related notes (pages F-1 to F-95) are filed as part of this report on Form 17-Q.

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

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

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

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to pesos, Philippine pesos or Php are to the lawful currency of the Philippines; all references to U.S. dollars, US\$ or dollars are to the lawful currency of the United States; all references to Japanese yen, JP¥ or ¥ are to the lawful currency of Japan and all references to Euro or € are to the lawful currency of the European Union. Translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php47.264 to US\$1.00, the volume weighted average exchange rate at September 30, 2008 quoted through the Philippine Dealing System.

Some information in this report may contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. We have based these

forward-looking statements on our current beliefs, expectations and intentions as to facts, actions and events that will or may occur in the future. Such statements generally are identified by forward-looking words such as believe, plan, anticipate, continue, estimate, expect, may, will or other similar words.

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

Financial Highlights and Key Performance Indicators

	September 30, 2008	December 31, 2007	Increase (Decrease) Amount %	
(in millions, except for operational data, exchange rates and earnings per common share)	(Unaudited)	(Audited)		

Consolidated Balance Sheets

Total assets	Php237,461	Php240,158	(Php2,697)	(1)
Property, plant and equipment net	158,210	159,414	(1,204)	(1)
Cash and cash equivalents and short-term investments	27,207	30,862	(3,655)	(12)
Total equity	99,359	112,511	(13,152)	(12)
Notes payable and long-term debt	68,110	60,640	7,470	12
Net debt(1) to equity ratio	0.41x	0.26x		

	Nine Months Ended September 30, 2008		Increase (Decrease) Amount %	
	2008	2007(2)		
	(Unaudited)			

Consolidated Statements of Income

Revenues and other income	Php113,035	Php106,420	Php6,615	6
Expenses	71,681	66,262	5,419	8
Income before income tax	41,354	40,158	1,196	3
Net income attributable to equity holders of PLDT	26,179	26,622	(443)	(2)
Pre-tax income margin	37%	38%		
Net income margin	24%	25%		
Earnings per common share				
Basic	137.15	139.32	(2.17)	(2)
Diluted	137.14	138.89	(1.75)	(1)

Consolidated Statements of Cash Flows

Net cash provided by operating activities	Php60,076	Php56,276	Php3,800	7
Net cash used in investing activities	6,991	19,557	(12,566)	(64)
<i>Capital expenditures</i>	<i>16,841</i>	<i>14,529</i>	<i>2,312</i>	<i>16</i>
Net cash used in financing activities	48,514	44,757	3,757	8

Operational Data

Number of cellular subscribers	34,176,370	28,260,095	5,916,275	21
Number of fixed line subscribers	1,773,091	1,751,468	21,623	1
Number of broadband subscribers	876,176	501,250	374,926	75
<i>Fixed Line</i>	<i>388,015</i>	<i>229,534</i>	<i>158,481</i>	<i>69</i>
<i>Wireless</i>	<i>488,161</i>	<i>271,716</i>	<i>216,445</i>	<i>80</i>
Number of employees	29,650	28,951	699	2
<i>Fixed Line</i>	<i>7,813</i>	<i>8,057</i>	<i>(244)</i>	<i>(3)</i>
<i>Wireless</i>	<i>5,622</i>	<i>5,345</i>	<i>277</i>	<i>5</i>
<i>Information and Communications Technology</i>	<i>16,215</i>	<i>15,549</i>	<i>666</i>	<i>4</i>

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

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

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

Overview

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

- *Wireless* wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Pilipino Telephone Corporation, or Piltel, our cellular service providers; Smart Broadband, Inc., or SBI, our wireless broadband provider; Wolfpac Mobile, Inc., or Wolfpac, our wireless content operator; Mabuhay Satellite Corporation, or Mabuhay Satellite and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator;
- *Fixed Line* fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT's subsidiaries, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Maratel, Inc., Piltel (on June 4, 2008, PLDT acquired the fixed line assets of Piltel), PLDT Global Corporation, or PLDT Global, Smart-NTT Multimedia, Inc., and Bonifacio Communications Corporation, which together account for approximately 2% of our consolidated fixed line subscribers; and
- *Information and Communications Technology, or ICT* information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT; knowledge processing solutions provided by SPi Technologies, Inc. and its subsidiaries, or SPi Group; customer interaction services provided under the umbrella brand name *ePLDT Ventus*, through ePLDT Ventus, Inc., or Ventus, Parlance Systems, Inc., or Parlance, and Vocativ Systems, Inc., or Vocativ; internet access and online gaming services provided by Infocom Technologies, Inc., or Infocom, Digital Paradise, Inc., or Digital Paradise, netGames, Inc., or netGames, and Level Up!, Inc., or Level Up!; and e-commerce, and IT-related services

provided by other investees of ePLDT, as discussed in *Note 9 Investments in Associates and Joint Ventures* to the accompanying unaudited consolidated financial statements.

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

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

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

Results of Operations

The table below shows the contribution by each of our business segments to our unaudited revenues and other income, expenses and net income for the nine months ended September 30, 2008 and 2007. Most of our revenues and other income are derived from our operations within the Philippines.

	Wireless	Fixed Line	ICT (in millions)	Inter-segment Transactions	Total
For the nine months ended September 30, 2008					
Revenues and other income	Php71,364	Php41,480	Php7,907	(Php7,716)	Php113,035
Expenses	38,552	32,817	7,955	(7,643)	71,681
Income (loss) before income tax	32,812	8,663	(48)	(73)	41,354
Net income (loss) for the period	21,473	5,388	(46)	(73)	26,742
Net income (loss) attributable to equity holders of PLDT	20,875	5,385	(8)	(73)	26,179

**For the nine months ended
September 30, 2007(1)**

Revenues and other income	68,683	36,951	7,610	(6,824)	106,420
Expenses	34,615	30,795	7,676	(6,824)	66,262
Income (loss) before income tax	34,068	6,156	(66)		40,158
Net income for the period	22,947	4,114	7		27,068
Net income attributable to equity holders of PLDT	22,465	4,111	46		26,622

Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	Amount	%
Revenues and other income	Php2,681	4	Php4,529	12	Php297	4	(Php892)	Php6,615	6
Expenses	3,937	11	2,022	7	279	4	(819)	5,419	8
Income (loss) before income tax	(1,256)	(4)	2,507	41	18	27	(73)	1,196	3
Net income (loss) for the period	(1,474)	(6)	1,274	31	(53)	(757)	(73)	(326)	(1)
Net income (loss) attributable to equity holders of PLDT	(1,590)	(7)	1,274	31	(54)	(117)	(73)	(443)	(2)

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

*Wireless****Total Revenues and Other Income***

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

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

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

Service Revenues

Our wireless service revenues increased by Php4,742 million, or 7%, to Php68,801 million in the first nine months of 2008 as compared with Php64,059 million in the same period in 2007, mainly as a result of the growth in the cellular and wireless broadband subscriber base. Short messaging service, or SMS, benefited from the larger subscriber base.

Voice revenues also increased due to the growth in call volumes partially offset by the unfavorable effect of a lower average Philippine peso to the U.S. dollar exchange rate on our dollar-linked revenues. As a percentage of our total wireless revenues and other income, service revenues contributed 97% in the first nine months of 2008 as compared with 93% in the same period in 2007.

Cellular Service

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

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

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

Smart and Piltel have focused on segmenting the market by offering sector-specific, value-driven packages for its prepaid subscribers. These include new varieties of our top-up service which provide a fixed number of messages with prescribed validity periods and call packages which allow a fixed number of minutes or calls of preset duration. Starting out as purely on-network (Smart-to-Smart) packages, Smart's top-up services now offer text message bundles available to all networks. Smart also continues to offer *Smart 258*, a registration-based service which offers unlimited on-network (Smart-to-Smart) text messaging in various load denominations with designated expiration periods. In addition, Smart has a roster of 3G services which include video calling, video streaming, high-speed internet browsing and downloading of special 3G content, offered at rates similar to those of 2G services.

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

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

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

	As at September 30,			
	2008	2007	Increase Amount	%
Cellular subscriber base	34,176,370	28,260,095	5,916,275	21
Prepaid	33,810,530	27,921,504	5,889,026	21
<i>Smart</i>	20,521,552	19,576,658	944,894	5
<i>Piltel</i>	13,288,978	8,344,846	4,944,132	59
Postpaid	365,840	338,591	27,249	8
Nine Months Ended September 30,				
	Increase (Decrease)			
	2008	2007	Amount	%
Systemwide traffic volumes (in millions)				
Calls (in minutes)	4,973	4,690	283	6
Domestic outbound	2,867	2,806	61	2
International	2,106	1,884	222	12
<i>Inbound</i>	1,940	1,737	203	12
<i>Outbound</i>	166	147	19	13
SMS count	184,515	168,949	15,566	9

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 6-K

Text messages	183,276	167,436	15,840	9
Domestic	183,054	167,242	15,812	9
<i>Bucket-Priced</i>	<i>163,946</i>	<i>147,760</i>	<i>16,186</i>	<i>11</i>
<i>Standard</i>	<i>19,108</i>	<i>19,482</i>	<i>(374)</i>	<i>(2)</i>
International	222	194	28	14
Value-Added Services	1,218	1,480	(262)	(18)
Financial Services	21	33	(12)	(36)

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

Voice Services

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

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

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as value-added services, increased by Php2,739 million, or 8%, to Php35,398 million in the first nine months of 2008 from Php32,659 million in the same period in 2007. Cellular data services accounted for 55% of cellular service revenues in the first nine months of 2008 as compared with 53% in the same period in 2007.

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

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

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

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

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

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

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

Subscriber Base, ARPU and Churn Rates

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

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

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

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

Nine Months Ended September 30,							
						Increase	
						(Decrease)	
Gross	Decrease	Net					
2008	2007	Amount	%	2008	2007	Amount	%

Prepaid

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 6-K

Smart		Php290	Php314	(Php24)	(8)	Php228	Php257	(Php29)	(11)
Piltel		195	222	(27)	(12)	157	186	(29)	(16)
Prepaid	Blended	255	287	(32)	(11)	202	236	(34)	(14)
Postpaid	Smart	2,075	2,086	(11)	(1)	1,495	1,491		4
Prepaid and Postpaid	Blended	275	309	(34)	(11)	216	252	(36)	(14)

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

Prepaid service revenues consist mainly of charges for subscribers' actual usage of their loads. Prepaid blended gross monthly ARPU in the first nine months of 2008 was Php255, a decrease of 11%, compared with Php287 in the same period in 2007. The average outbound domestic voice, text messaging, value-added services and inbound revenue per subscriber declined in the first nine months of 2008 compared with the same period in 2007. On a net basis, prepaid blended monthly ARPU in the first nine months of 2008 was Php202, a decrease of 14%, compared with Php236 in the same period in 2007.

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

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

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

	Prepaid				Postpaid	
	Smart		Piltel		Smart	
	Gross	Net	Gross	Net	Gross	Net
2008						
First Quarter	Php292	Php230	Php207	Php163	Php2,013	Php1,472
Second Quarter	294	232	199	159	2,134	1,510

Third Quarter	285	223	178	148	2,078	1,505
---------------	-----	-----	-----	-----	-------	-------

2007

First Quarter	Php323	Php267	Php228	Php187	Php2,045	Php1,483
Second Quarter	324	265	233	198	2,141	1,526
Third Quarter	293	239	206	173	2,073	1,464
Fourth Quarter	307	244	216	177	2,105	1,467

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

We recognize a prepaid cellular subscriber as an active subscriber when that subscriber activates and uses the SIM card in the subscriber's handset, which contains pre-stored air time. The pre-stored air time, which is equivalent to Php1 plus 50 free SMS for *Smart Buddy* and 25 free SMS for *Talk N Text*, can only be used upon purchase or reload of air time of any value. Subscribers can reload their air time by purchasing prepaid call and text cards; by purchasing additional air time over-the-air via *Smart Load*, *All Text* or *Smart Connect*; and by receiving loads of Php2, Php5, Php10 and Php15 via *Pasa Load*, or through their handsets using *Smart Money*. Reloads have validity periods ranging from one day to two months, depending on the amount reloaded. A prepaid cellular subscriber is disconnected if the subscriber does not reload within four months after the full usage or expiry of the last reload. Our current policy is to recognize a prepaid subscriber as active only when the subscriber activates and uses the SIM card and reloads at least once during the month of initial activation or in the immediate succeeding month.

For Smart prepaid, the average monthly churn rate for the first nine months of 2008 and 2007 were 4.6% and 3.1%, respectively, while the average monthly churn rate for *Talk N Text* subscribers in the first nine months of 2008 and 2007 were 4.7% and 3.5%, respectively.

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

Wireless Broadband, Satellite and Other Services

Our revenues from wireless broadband, satellite and other services consist mainly of wireless broadband service revenues from SBI, rentals received for the lease of Mabuhay Satellite's transponders, charges for ACeS Philippines

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

SBI offers a number of wireless broadband services and had 472,576 subscribers in the first nine months of 2008 as compared with 259,477 in the same period in 2007. *SmartBro*, SBI's fixed wireless broadband service linked to Smart's wireless broadband-enabled base stations, allows people to connect to the internet using an outdoor aerial antenna installed in a subscriber's home. Wireless broadband revenues contributed Php3,095 million in the first nine months of 2008, increasing by Php1,498 million, or 94%, from Php1,597 million in the same period in 2007.

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

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

Non-service Revenues

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

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

Interest Income

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

Loss on Derivative Transactions net

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

Others

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

Expenses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provision for Income Tax

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

Net Income

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

Fixed Line

Total Revenues and Other Income

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

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

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

Service Revenues

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

Local Exchange Service

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

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

	Nine Months Ended September 30,			
	2008	2007	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions of pesos)	11,876	12,067	(191)	(2)
Number of fixed line subscribers	1,773,091	1,751,468	21,623	1
Postpaid	1,510,739	1,454,678	56,061	4
Prepaid	262,352	296,790	(34,438)	(12)
Number of fixed line employees	7,813	8,057	(244)	(3)
Number of fixed line subscribers per employee	227	217	10	5

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

Initially intended as an affordable alternative telephone service for consumers under difficult economic conditions, our prepaid fixed line services now form an important part of our overall churn and credit risk exposure management strategy. PLDT has consolidated its prepaid fixed line service into *Telepwede* which is funded by e-Loads (available at Smart or PLDT e-Load retailers). *Telepwede* subscribers are charged Php115 to receive incoming calls and can reload for as low as Php30 to make outgoing calls. Local call rates are made more affordable at Php2 per call, unlimited.

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

respectively.

International Long Distance Service

Our international long distance service revenues, which we generate through our international gateway facilities, consist of (i) inbound call revenues representing settlements from foreign telecommunications carriers for inbound international calls, virtual transit and hubbing service and reverse charged calls such as received collect and home country direct service; (ii) access charges paid to us by other Philippine telecommunications carriers for terminating inbound international calls to our local exchange network; and (iii) outbound call revenues representing amounts billed to our customers (other than our cellular customers) for outbound international calls, net of amounts payable to foreign telecommunications carriers for terminating calls in their territories.

The following table shows our unaudited fixed line international long distance revenues and call volumes for the nine months ended September 30, 2008 and 2007:

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

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

Our revenues from inbound international long distance service decreased by Php1,114 million, or 20%, to Php4,392 million from Php5,506 million in the same period in 2007 due to a decline in inbound traffic volume by 179 million minutes to 1,314 million minutes in the first nine months of 2008, as well as the appreciation of the average Philippine peso to the U.S. dollar exchange rate coupled with a decrease in average termination rate per minute due to the change

in call mix with more traffic terminating to cellular operators where the net revenue retained by us is lower. The appreciation of the Philippine peso to the U.S. dollar average exchange rates of Php42.60 in the first nine months of 2008 and Php47.53 in the same period in 2007 contributed to the decrease in our inbound international long distance revenues in peso terms, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php134 million, or 11%, to Php1,045 million in the first nine months of 2008 from Php1,179 million in the same period in 2007 primarily due to a decline in outbound international call volumes, a decrease in average revenue per minute as a result of a lower average collection rate with the introduction of low-rate services such as *PLDT ID-DSL* and *Budget Card*, and the appreciation of the Philippine peso.

National Long Distance Service

Our national long distance service revenues consist of: (i) per minute charges for calls made by our fixed line customers outside of the local service areas but within the Philippines, net of interconnection charges payable for calls carried through the backbone network of, and/or terminating to the customer of, another telecommunications carrier; (ii) access charges received from other telecommunications carriers for calls carried through our backbone network and/or terminating to our customers; and (iii) fixed charges paid by other telephone companies, charges retained by PLDT for calls terminating to cellular subscribers within the local area, and local access charges paid by cellular operators for calls by cellular subscribers that terminate to our local exchange network.

The following table shows our unaudited national long distance service revenues and call volumes for the nine months ended September 30, 2008 and 2007:

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

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

Data and Other Network Services

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

The following table shows information about our unaudited data and other network service revenues for the nine months ended September 30, 2008 and 2007:

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

In the first nine months of 2008, our data and other network services posted revenues of Php13,627 million, an increase of Php2,447 million, or 22%, from Php11,180 million in the same period in 2007 primarily due to increases in leased lines, IP-based and packet-based data services, particularly Diginet and DFON rental, and PLDT DSL mitigated by lower PLDT Vibe services. The percentage contribution of this service segment to our fixed line service revenues increased to 37% in the first nine months of 2008 from 31% in the same period in 2007.

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

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

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

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

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

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. In the first nine months of 2008, these revenues decreased by Php29 million, or 3%, to Php1,017 million from Php1,046 million in the same period in 2007 mainly due to a decline in facilities management fees and rental income owing to lower co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in the first nine months of 2008 and 2007.

Non-service Revenues

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

Gain on Derivative Transactions net

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

Interest Income

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

Others

All other income/gains such as rental income and gain on disposal of property, which do not fall under service and non-service revenues, are included under this classification. In the first nine months of 2008, our fixed line business segment registered an increase in other income of Php692 million, or 151%, to Php1,151 million from Php459 million in the same period in 2007 largely due to gain on disposal of fixed assets.

Expenses

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

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

				Nine Months Ended September 30,	
				Increase	
				(Decrease)	
2008	%	2007	%	Amount	%

(in millions)

Fixed line services:

Depreciation and amortization	Php9,009	27	Php9,330	30	(Php321)	(3)
Compensation and employee benefits(1)	6,352	19	7,879	26	(1,527)	(19)
Foreign exchange losses net	4,212	13			4,212	100
Repairs and maintenance	3,335	10	2,730	9	605	22
Financing costs net	3,123	10	3,656	12	(533)	(15)
Professional and other contracted services	1,528	5	1,243	4	285	23
Rent	1,484	5	1,205	4	279	23
Selling and promotions	1,053	3	831	3	222	27
Asset impairment	660	2	829	3	(169)	