PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 6-K
November 08, 2005

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 2005, which includes financial statements for the period ended September 30, 2005

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: y Form 40-F: o

(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: o No: y

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

EXHIBITS

Exhibit Number	Page
1.1	Announcement dated November 8, 2005

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Nine Months Ended September 30, 2005

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

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

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to pesos, Philippine pesos or Php are to the lawful currency of the Philippines; all references to U.S. dollars, US$ or dollars are to the lawful currency of the United States; all references to Japanese yen, JP¥ or ¥ are to the lawful currency of Japan and all references to Euro or are to the lawful currency of the European Union. Translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php55.977 to US$1.00, the volume weighted average exchange rate at September 30, 2005 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.*

Our audited consolidated financial statements as at December 31, 2004 and our unaudited consolidated financial statements for the nine months ended September 30, 2004 have been restated to reflect the effects of the changes in accounting policies. For further discussion please see
Note 2 Summary of Significant Accounting Policies and Practices Changes in Accounting Policies to the accompanying unaudited consolidated financial statements.

Financial Highlights and Key Performance Indicators

(in millions)	**September 30, 2005** (Unaudited)	**December 31, 2004** (Audited)	**Increase (Decrease) Amount**	**%**
Consolidated Balance Sheets				
Total assets	Php257,074	Php264,813	(Php7,739)	(3)
Property, plant and equipment	186,984	194,525	(7,541)	(4)
Cash and cash equivalents and short-term investments	32,892	31,194	1,698	5
Total equity	68,306	48,515	19,791	41
Interest-bearing financial liabilities	132,319	164,489	(32,170)	(20)
Notes payable and long-term debt	117,982	149,088	(31,106)	(21)
Net debt to equity ratio(1)	1.25x	2.43x		

	Nine Months Ended September 30,			
	2005	**2004**(2)	**Increase (Decrease) Amount**	**%**
	(Unaudited)			
Consolidated Statements of Income				
Revenues and other income	Php92,562	Php95,925	(Php3,363)	(4)
Service income	89,686	86,044	3,642	4
Expenses	59,426	67,656	(8,230)	(12)
Income before income tax	33,136	28,269	4,867	17
Net income attributable to equity holders	24,997	22,140	2,857	13
Net income	25,025	22,196	2,829	13
Net income margin	27%	23%		
Consolidated Statements of Cash Flows				

Net cash provided by operating activities	54,678	56,121	(1,443)	(3)
Net cash used in investing activities	4,578	17,756	(13,178)	(74)
Capital expenditures	9,556	16,266	(6,710)	(41)
Net cash used in financing activities	44,337	30,143	14,194	47
Operational Data				
Number of cellular subscribers	20,788,745	17,472,516	3,316,229	19
Number of fixed lines in service	2,131,861	2,184,411	(52,550)	(2)
Number of employees	18,912	18,015	897	5

Exchange Rates	**Php per US$**	**Php per JP¥**
September 30, 2005	Php55.977	Php0.4933
December 31, 2004	56.341	0.5495
September 30, 2004	56.276	0.5117
December 31, 2003	55.586	0.5193

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(1) Net debt is derived by deducting cash and cash equivalents and short-term investment from long-term debt.

(2) As restated to reflect the effects of the changes in accounting policies, as discussed in Accounting Changes below and in Note 2 Summary of Significant Accounting Policies and Practices Changes in Accounting Policies to the accompanying unaudited consolidated financial statements.

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, and Mabuhay Satellite Corporation, ACeS Philippines Cellular Satellite Corporation, and Telesat, Inc., our satellite and very small aperture terminal, or VSAT, operators;

- *Fixed Line* fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT s subsidiaries PLDT Clark Telecom, Inc., Subic Telecommunications Company, Inc., PLDT-Maratel, Inc., Piltel and Bonifacio Communications Corporation, which together account for approximately 3% of our consolidated fixed lines in service, and PLDT Global Corporation; and

• *Information and Communications Technology* information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by PLDT s subsidiary ePLDT, Inc.; call center services provided by ePLDT s subsidiaries Parlance Systems, Inc., or Parlance, Vocativ Systems, Inc., or Vocativ, and ePLDT Ventus, Inc., or Ventus; internet access and gaming services provided by ePLDT s subsidiaries, Infocom Technologies, Inc. or Infocom, Digital Paradise, Inc., or DigiPar, Digital Paradise Thailand, Ltd., or DigiPar Thailand, netGames, Inc., or netGames, and Airborne Access Corporation, or Airborne Access; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 9 Investments in Associates* to the accompanying unaudited consolidated financial statements.

We registered total revenues and other income of Php92,562 million in the first nine months of 2005, a decrease of Php3,363 million as compared to Php95,925 million in the same period in 2004, primarily due to a Php3,990 million and Php3,015 million decline in our other income and non-service revenues, respectively, partially offset by a Php3,642 million net increase in our service revenues. Consolidated service revenues increased by 4% in the first nine months of 2005 as compared to the same period in 2004.

Expenses decreased by Php8,230 million, or 12%, to Php59,426 million in the first nine months of 2005 from Php67,656 million in the same period in 2004 largely resulting from decreases in financing costs mostly driven by the appreciation of the Philippine peso against the U.S. dollar and Japanese yen and lower cost of sales.

With the expiration of Smart s income tax holiday in May 2004, we recognized a higher provision for income tax of Php8,111 million for the first nine months of 2005 as compared to
Php6,073 million in the same period in 2004.

As a result of the foregoing, our net income increased by Php2,829 million, or 13%, to Php25,025 million in the first nine months of 2005 from Php22,196 million in the same period in 2004.

Accounting Changes

The accounting policies adopted are consistent with those of the previous financial period except that we have adopted in year-end 2004 the following new accounting standards effective January 1, 2005. Our September 30, 2004 unaudited consolidated financial statements herein have been restated to give effect to the provisions of the new standards adopted:

- ***Philippine Accounting Standard, or PAS, 19, Employee Benefits.*** PAS 19 requires the use of the projected unit credit method in measuring retirement benefit expense and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. On the initial adoption of this standard, the effect of the change in accounting policy includes all actuarial gains and losses that arose in earlier periods even if they fall inside the 10% corridor. In subsequent periods, a portion of actuarial gains or losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed the greater of: (i) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and (ii) 10% of the fair value of any planned assets at that date by dividing the excess determined by the expected average remaining working lives of the employees participating in that plan.

- ***PAS 21, The Effects of Changes in Foreign Exchange Rates.*** PAS 21 requires the recognition of foreign exchange gains and losses in the period they are incurred. Upon the adoption of PAS 21, we adjusted previously recorded undepreciated capitalized foreign exchange losses, net of exchange losses that qualify as borrowing cost and income tax effect, against beginning retained earnings, to the extent that such capitalized amounts do not meet the conditions for capitalization under the new accounting standard, and restated prior periods unaudited consolidated financial statements. Further, PAS 21 requires the determination of the functional currency of an entity. Exchange differences from any retranslation are taken directly as a separate component of equity. On disposal of an entity with a functional currency other than the Philippine peso, the deferred cumulative amount recognized in equity relating to that particular foreign operation shall be recognized in the consolidated statement of income.

- ***PAS 39, Financial Instruments: Recognition and Measurement.*** PAS 39 establishes the accounting and reporting standards for recognizing and measuring our financial assets and financial liabilities. This standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, we are to continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as at fair value through profit and loss and derivatives, which are measured at fair value.

PAS 39 also covers the accounting for derivative instruments. This standard has expanded the definition of a derivative instrument to include derivatives (derivative-like provisions) embedded in non-derivative contracts. Under this standard, every derivative instrument is recorded in the balance sheet as either an asset or liability measured at its fair value. Derivatives that are not designated and do not qualify as hedges are adjusted to fair value through income. If the derivative is designated and qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in equity until the hedged item is recognized in earnings.

- ***PAS 40, Investment Property.*** PAS 40 prescribes the accounting treatment for investment properties which are defined as land and/or building held to generate income or for capital appreciation or both. An investment property is initially recognized at cost. Subsequent to initial recognition, an investment property is either carried at (i) cost, less accumulated depreciation or any accumulated impairment losses, or (ii) fair value, wherein fair value movements are recognized as income or expense. Transfers to or from investment property classification are made only when there is evidence of a change in use.

- ***PFRS 2, Share-Based Payment.*** PFRS 2 requires an entity to recognize goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognize a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction. In line with our adoption of PFRS 2, we recognized in our consolidated statements of income the costs of employees and directors share options and other share-based incentives by using an option-pricing model, further details of which are given in *Note 21 Employee Benefits* to the accompanying unaudited consolidated financial statements.

- ***PFRS 3, Business Combinations, PAS 36, Impairment of Assets and PAS 38, Intangible Assets.*** PFRS 3 requires all business combinations within its scope to be accounted for by applying the purchase method. In addition, this standard requires the acquirer to initially measure separately the identifiable assets, liabilities and contingent liabilities at their fair values, at acquisition date, irrespective of the extent of any minority interest.

PFRS 3 also requires goodwill in a business combination to be recognized by an acquirer as an asset from the acquisition date, initially measured as the excess of the cost of the business combination over the acquirer s interest in the net fair value of the acquiree s identifiable assets and liabilities. Further, the amortization of goodwill acquired in a business combination is prohibited; instead, goodwill is to be tested annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired.

Moreover, the useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Where an intangible asset has a finite life, it will be amortized over its useful life. Amortization periods and methods for intangible assets with finite useful lives are reviewed annually or earlier where an indicator of impairment exists. Intangibles assessed as having indefinite useful lives are not amortized, as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. However, intangibles with indefinite useful lives are reviewed annually to ensure that their carrying values do not exceed the recoverable amounts regardless of any impairment indicators present.

In 2004, Smart acquired Meridian Telekoms, Inc., or Meridian, using the purchase method of accounting which resulted in intangible assets determined provisionally at Php3,638 million. Under PFRS 3, we are allowed to recognize any adjustment to the provisional value as a result of completing the initial accounting within twelve months from the acquisition date. In September 2005, an independent appraiser completed the valuation work for certain of Meridian s intangible assets and determined goodwill amounting to Php1,415 million at the time of acquisition. The completion of the intangible asset valuation did not have any material effect in our unaudited consolidated statement of income for the nine months ended September 30, 2004.

- ***PFRS 5, Non-Current Assets Held-for-Sale and Discontinued Operations.*** Under the superseded SFAS 35/IAS 35, Discontinuing Operations, we would have previously recognized a discontinued operation at the earlier of when (a) we entered into a binding agreement; and (b) the Board of Directors approved and announced a formal disposal plan. PFRS 5 now requires an operation to be classified as discontinued when the criteria to be classified as held-for-sale have been met or we have disposed of the operation.

Following additional guidelines from PAS 16, Property, Plant and Equipment, we have recognized the initial settlement of the net present value of legal and constructive obligations associated with the retirement of a tangible long-lived asset that resulted from the acquisition, construction or development and the normal operation of a long-lived asset in the period in which it is incurred. The asset retirement obligations were recognized in the period in which they were incurred if a reasonable estimate of fair values can be made. The related asset retirement costs were capitalized as part of the carrying amount of the corresponding property, plant and equipment which are being depreciated on a straight-line basis over the useful lives of the related assets or the contract periods, whichever is shorter.

The following is the reconciliation from net income as previously reported to net income as restated, including the effect of these restatements on per share amounts:

		For the Nine Months Ended September 30,
		2004
(in millions, except per share amounts)		
Net income attributable to equity holders, as previously reported		Php20,007
PAS 16	Property, Plant and Equipment	(55)
PAS 17	Leases	2
PAS 19	Employee Benefits	(26)
PAS 21	The Effects of Changes in Foreign Exchange Rates	2,672
PAS 39	Financial Instruments: Recognition and Measurement	(232)
PAS 40	Investment Property	(9)
PFRS 2	Share-Based Payment	(180)
PFRS 3	Business Combinations, PAS 36 Impairment of Assets and	
PAS 38	Intangible Assets	(39)
Net income attributable to equity holders, as restated		Php22,140
Basic earnings per common share, as previously reported		Php111.22
Basic earnings per share impact of restated items:		
PAS 16	Property, Plant and Equipment	(0.33)
PAS 17	Leases	0.01
PAS 19	Employee Benefits	(0.15)
PAS 21	The Effects of Changes in Foreign Exchange Rates	15.76
PAS 39	Financial Instruments: Recognition and Measurement	(1.37)
PAS 40	Investment Property	(0.05)
PFRS 2	Share-Based Payment	(1.06)
PFRS 3	Business Combinations, PAS 36 Impairment of Assets and	
PAS 38	Intangible Assets	(0.23)

Basic earnings per common share, as restated	Php123.80

In compliance with PAS 16, we identified the significant parts of our property, plant and equipment and reviewed their corresponding remaining estimated useful lives as of January 1, 2005. We recognized the effect of the change in accounting estimate prospectively, in accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The change reduced our consolidated net income by Php1,044 million (Php710 million after tax effect) for the nine months ended September 30, 2005.

For a detailed discussion regarding changes in accounting policies, please refer to *Note 2 Summary of Significant Accounting Policies and Practices Changes in Accounting Policies* to the accompanying unaudited consolidated financial statements.

Results of Operations

The table below shows the contribution by each of our business segments to our revenues and other income, expenses and net income (losses) for the nine months ended September 30, 2005 and 2004. Most of our revenues are derived from our operations within the Philippines.

	Wireless	**Fixed Line**	**ICT**	**Inter-segment Transactions**	**Total**
(in millions)					
For the nine months ended September 30, 2005					
(Unaudited)					
Revenues and other income	Php57,648	Php36,847	Php2,423	(Php4,356)	Php92,562
Service	54,984	36,696	2,100	(4,094)	89,686
Non-service	1,999		248	(94)	2,153
Other income	665	151	75	(168)	723
Expenses	30,252	31,221	2,309	(4,356)	59,426
Income before income tax	27,396	5,626	114		33,136
Net income attributable to equity holders	20,895	3,950	152		24,997
Net income	20,965	3,951	109		25,025
For the nine months ended September 30, 2004(1)					
(Unaudited)					
Revenues and other income	60,385	36,130	1,813	(2,403)	95,925
Service	50,749	35,879	1,537	(2,121)	86,044
Non-service	5,050		251	(133)	5,168
Other income	4,586	251	25	(149)	4,713

Expenses	34,063		33,666		2,330		(2,403)	67,656	
Income (loss) before income tax	26,322		2,464		(517)			28,269	
Net income (loss) attributable to equity holders	20,815		1,845		(520)			22,140	
Net income	20,889		1,823		(516)			22,196	
	Amount	%	**Amount**	%	**Amount**	%	**Amount**	**Amount**	%
Increase (Decrease)									
Revenues and other income	(Php2,737)	(5)	Php717	2	Php610	34	(Php1,953)	(Php3,363)	(4)
Service	4,235	8	817	2	563	37	(1,973)	3,642	4
Non-service	(3,051)	(60)			(3)	(1)	39	(3,015)	(58)
Other income	(3,921)	(85)	(100)	(40)	50	200	(19)	(3,990)	(85)
Expenses	(3,811)	(11)	(2,445)	(7)	(21)	(1)	(1,953)	(8,230)	(12)
Income before income tax	1,074	4	3,162	128	631	122		4,867	17
Net income attributable to equity holders	80		2,105	114	672	129		2,857	13
Net income	76		2,128	117	625	121		2,829	13

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(1) As restated to reflect the effects of the changes in accounting policies, as discussed in Note 2 Summary of Significant Accounting Policies and Practices Changes in Accounting Policies to the accompanying unaudited consolidated financial statements.

Wireless

Revenues and Other Income

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

The following table summarizes our service and non-service revenues and other income from our wireless business for the nine months ended September 30, 2005 and 2004 by service segment:

	Nine months ended September 30,					
					Increase (Decrease)	
	2005	%	**2004**(1)	%	**Amount**	%

	(Unaudited)					
(in millions)						
Wireless services:						
Service Revenues						
Cellular	Php53,416	93	Php49,324	82	Php4,092	8
Satellite, VSAT, wireless broadband and others	1,568	2	1,425	2	143	10
	54,984	95	50,749	84	4,235	8
Non-service Revenues						
Sale of cellular handsets and SIM-packs	1,999	4	5,050	8	(3,051)	(60)
Other Income	665	1	4,586	8	(3,921)	(85)
Total Wireless Revenues and Other Income	Php57,648	100	Php60,385	100	(Php2,737)	(5)

(1) As restated to reflect the effects of the changes in accounting policies, as discussed in Note 2 Summary of Significant Accounting Policies and Practices Changes in Accounting Policies to the accompanying unaudited consolidated financial statements.

Service Revenues

Our wireless service revenues increased by Php4,235 million, or 8%, to Php54,984 million in the first nine months of 2005 compared to Php50,749 million in the same period in 2004, mainly as a result of the growth of Smart s and Piltel s subscriber base. Accordingly, as a percentage of our total wireless revenues and other income, service revenues increased to 95% in the first nine months of 2005 from 84% in the same period in 2004.

Cellular Service

Our cellular service revenues consist of:

• revenues derived from actual usage of the network by prepaid subscribers and any unused peso value of expired prepaid cards or electronic air time loads, net of discounts given to dealers;

• monthly service fees from postpaid subscribers, including (1) charges for calls in excess of allocated free local calls, (2) toll charges for national and international long distance calls, (3) charges for text messages of our service customers in excess of allotted free text messages, and (4) charges for value-added services, net of related content provider costs;

• revenues generated from incoming calls and messages to our subscribers, net of interconnection expenses; fees from reciprocal traffic from international correspondents; and revenues from inbound international roaming calls for the service; and

• other charges, including those for reconnection and migration.

Our cellular service revenues in the first nine months of 2005 amounted to Php53,416 million, an increase of Php4,092 million, or 8%, from Php49,324 million in the same period in 2004. Cellular service revenues accounted for 97% of wireless service revenues in the first nine months of 2005 and 2004.

As at September 30, 2005, Smart and Piltel cellular subscribers reached 20,788,745, an increase of 3,316,229, or 19%, over the combined cellular subscriber base of 17,472,516 as at September 30, 2004. The increase in cellular subscribers of Smart and Piltel was due to an increase in the prepaid subscriber base, which more than offset the decline in the postpaid subscriber base. Prepaid subscribers accounted for 99% and 98% of our total subscriber base as at September 30, 2005 and 2004, respectively. Prepaid net subscriber activations totaled 1,576,248 in the first nine months of 2005. Postpaid subscribers totaled 278,759 subscribers, reflecting a net activation of 4,265 in the first nine months of 2005. Postpaid subscribers as at September 30, 2005 were lower than as at September 30, 2004, primarily due to net reductions in postpaid subscribers in the last quarter of 2004 and first quarter of 2005.

Smart markets nationwide cellular communications services under the brand names *Smart Buddy, Smart Gold, addict mobile, addict mobile prepaid*, or *amp*, *Smart Infinity, Smart Kid* and *Smart Kid prepaid. Smart Buddy, amp* and *Smart Kid prepaid* are prepaid services while *Smart Gold, addict mobile*, *Smart Infinity* and *Smart Kid* are postpaid services, which are all provided through Smart's digital network.

Piltel markets its cellular prepaid service under the brand name *Talk N Text* which is provided through Smart s network. On December 22, 2004, the Board of Directors of Smart and Piltel approved the amendment of Piltel s and Smart s revenue sharing arrangement of 50-50 for the *Talk N Text* service to 80-20 in favor of Piltel.

On August 1, 2004, Smart launched *Smart Padala*, one of the many innovative initiatives from our *Smart Money* platform. *Smart Padala* is the first cash remittance service through text and is faster and cheaper than traditional remittance arrangements. It was launched initially as an international remittance service for overseas Filipino workers but is now available for domestic remittances as well.

From March to August 2005, Smart launched a series of promotions to test the apparent market demand for fixed rate or bucket plans for voice and text services. Called *Smart 258 Unlimited Call and Text*, Smart and *Talk N Text* prepaid subscribers had the option, for the duration of the promotion, to register for unlimited on-network (Smart-to-Smart) voice calls or unlimited on-network (Smart-to-Smart) text messaging service. On October 19, 2005, *Smart 258 Text Reload* was launched with the following options:

- Unlimited text all day for Php15, Php30 and Php60 loads with validity periods of one, two and four days, respectively. Registration for this service can only be accomplished during the off-peak hours of 9am to 5pm and 11pm to 6am.

- Unlimited text during the off-peak hours of 11pm to 6am. This is available only with a Php30 load and is valid for two days. Subscribers to this service can register at any time and also receive 40 free text messages for use during peak hours.

Smart 258 Text Reload is valid until November 16, 2005.

From September 17 to October 17, 2005, Smart offered *Smart Double Txt*, where Smart and *Talk N Text* prepaid subscribers were credited with free additional text messages equivalent to their load denominations (e.g., additional free 30 SMS for Php30 load) which could be used for on-network texting and expired simultaneously with the load.

Smart also operated, from August 23 to October 19, 2005, a flat rate promotion which allows Smart and *Talk N Text* prepaid subscribers to make a call, to another Smart or *Talk N Text* subscriber, for a maximum duration of five minutes for a flat rate of Php15. In addition, on September 17, 2005, Smart launched its *PLDT Value Call* promotion which enabled Smart and *Talk N Text* prepaid subscribers to call any PLDT landline for Php9 for the first two minutes and Php4 for every minute thereafter. The *PLDT Value Call* promotion has been extended until November 14, 2005.

The following table summarizes key measures of our cellular business as at and for the nine months ended September 30, 2005 and 2004:

	Nine months ended September 30,			
			Increase	
	2005	**2004**	**Amount**	**%**
		(Unaudited)		
(in millions)				
Cellular service revenues	Php53,416	Php49,324	Php4,092	8

By component	*51,947*	*48,201*	*3,746*	*8*
Voice	25,628	25,037	591	2
Data	26,319	23,164	3,155	14
By service type	*51,947*	*48,201*	*3,746*	*8*
Prepaid	48,695	45,184	3,511	8
Postpaid	3,252	3,017	235	8
Others(1)	*1,469*	*1,123*	*346*	*31*

(1) Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, revenues from Smart s public calling offices and payphone businesses, revenues from Wolfpac Communications, Inc. and Smart Money Holdings Corporation and a small number of leased line contracts.

	As at September 30,			
			Increase (Decrease)	
	2005	**2004**	**Amount**	**%**
		(Unaudited)		
Cellular subscriber base	20,788,745	17,472,516	3,316,229	19
Prepaid	20,509,986	17,188,537	3,321,449	19
Smart	15,502,827	12,998,664	2,504,163	19
Piltel	5,007,159	4,189,873	817,286	20
Postpaid	278,759	283,979	(5,220)	(2)

	Nine months ended September 30,			
			Increase	
	2005	**2004**	**Amount**	**%**
		(Unaudited)		
Systemwide traffic volumes(1) (in millions)				
Calls (in minutes)	3,998	3,707	291	8
Domestic	2,804	2,639	165	6
International	1,194	1,068	126	12
Inbound	1,067	944	123	13
Outbound	127	124	3	2
Text messages	31,715	30,436	1,279	4
Smart	25,859	25,054	805	3
Piltel	5,856	5,382	474	9

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(1) Excludes traffic volumes relating to Smart 258 Unlimited Call and Text promotions.

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 Php591 million, or 2%, to Php25,628 million in the first nine months of 2005 from Php25,037 million in the same period in 2004 mainly due to an increase in subscriber base which compensated for a 20% drop in the average voice usage per subscriber from 20 minutes per month in the first nine months of 2004 to 16 minutes per month in the same period in 2005.

Air time rates for postpaid subscribers vary depending on the type of postpaid plan selected by subscribers. Beginning January 25, 2004, *Smart Gold*, *Smart Infinity* and *addict mobile* launched flat rate-regular plans and consumable plans.

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as value-added services, increased by Php3,155 million, or 14%, to Php26,319 million in the first nine months of 2005 from Php23,164 million in the same period in 2004. Cellular data services accounted for 49% of cellular service revenues in the first nine months of 2005, compared to 47% in the same period in 2004.

The following table shows the breakdown of cellular data revenues for the nine months ended September 30, 2005 and 2004:

	Nine months ended September 30,			
			Increase (Decrease)	
	2005	**2004**	**Amount**	**%**
		(Unaudited)		
(in millions)				
Text messaging				
Domestic	Php22,389	Php19,837	Php2,552	13
International	1,281	1,406	(125)	(9)
	23,670	21,243	2,427	11
Value-added services				
Non-Zed(1)	1,720	1,184	536	45

*Smart Zed*TM	418	419	(1)	
Smart Money	79	41	38	93
Mobile Banking	4	3	1	33
Roaming SMS and WAP	428	274	154	56
	2,649	1,921	728	38
Total	Php26,319	Php23,164	Php3,155	14

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(1) Value-added services developed by Smart on its own platform.

Text messaging-related services contributed revenues of Php23,670 million in the first nine months of 2005, an increase of 11%, compared to Php21,243 million in the same period in 2004, and accounted for 90% and 92% of the total cellular data revenues for the first nine months of 2005 and 2004, respectively. The increase in revenues from text messaging-related services resulted mainly from an increase in domestic text messaging owing to the introduction of *Smart 258 Unlimited Text* promotion in March 2005. Value-added services contributed revenues of Php2,649 million in the first nine months of 2005, increasing by Php728 million, or 38%, from Php1,921 million in the same period in 2004 primarily as a result of a significant increase in ringtone/caller ringtunes download activity as well as increased usage emanating from *Smart Padala*.

Subscriber Base, ARPU and Churn Rates

Prepaid subscribers accounted for approximately 99% of our 20,788,745 subscribers as at September 30, 2005, while postpaid subscribers accounted for the remaining 1%. The cellular prepaid subscriber base grew by 19% to 20,509,986 as at September 30, 2005 from 17,188,537 as at September 30, 2004, whereas postpaid subscriber base decreased by 2% to 278,759 as at September 30, 2005 from 283,979 as at September 30, 2004.

Our net subscriber activations for the first nine months of 2005 and 2004 are as follows:

	Nine months ended September 30,			
			Decrease	
	2005	**2004**	**Amount**	**%**
Prepaid	1,576,248	4,490,317	(2,914,069)	(65)
Smart	1,181,539	3,167,529	(1,985,990)	(63)
Piltel	394,709	1,322,788	(928,079)	(70)
Postpaid	4,265	35,002	(30,737)	(88)
Total	1,580,513	4,525,319	(2,944,806)	(65)

Our quarterly net subscriber activations (reductions) for the four quarters of 2004 and first three quarters of 2005 are as follows:

	2004				2005		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Prepaid	1,380,339	1,676,314	1,433,664	1,745,201	1,050,638	536,840	(11,230)
Smart	1,162,301	1,207,542	797,686	1,322,624	920,885	314,607	(53,953)
Piltel	218,038	468,772	635,978	422,577	129,753	222,233	42,723
Postpaid	16,866	7,691	10,445	(9,485)	(6,357)	116	10,506
Total	1,397,205	1,684,005	1,444,109	1,735,716	1,044,281	536,956	(724)

Revenues attributable to our cellular prepaid service amounted to Php48,695 million in the first nine months of 2005, an 8% increase over the Php45,184 million earned in the same period in 2004. Prepaid service revenues in the first nine months of 2005 and 2004 accounted for 94% of voice and data revenues. Revenues attributable to Smart s postpaid service amounted to
Php3,252 million in the first nine months of 2005, an 8% increase over the Php3,017 million earned in the same period in 2004. Postpaid service revenues in the first nine months of 2005 and 2004 accounted for 6% of voice and data revenues.

The following table summarizes our cellular ARPUs for the nine months ended
September 30, 2005 and 2004:

	Nine months ended September 30,							
	Gross		Increase (Decrease)		Net		Increase (Decrease)	
	2005	2004	Amount	%	2005	2004	Amount	%
	(Unaudited)							
Prepaid								
Smart	Php352	Php439	(Php87)	(20)	Php290	Php364	(Php74)	(20)
Piltel	255	323	(68)	(21)	209	272	(63)	(23)
Prepaid Blended	329	413	(84)	(20)	270	343	(73)	(21)
Postpaid Smart	1,850	1,733	117	7	1,335	1,247	88	7
Prepaid and Postpaid Blended	349	436	(87)	(20)	284	359	(75)	(21)

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 dealer 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 dealer 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. Gross monthly ARPU for Smart prepaid subscribers in the first nine months of 2005 was Php352, a decrease of 20%, compared to Php439 in the same period in 2004. The decline was attributable mainly to a decrease in the average text messaging revenue per subscriber as well as lower average outbound local and international voice revenue per subscriber and lower average inbound revenue per subscriber in the first nine months of 2005. On a net basis, ARPU in the first nine months of 2005 decreased by 20% to Php290 from Php364 in the same period in 2004. Gross monthly ARPU for *Talk N Text* subscribers in the first nine months of 2005 was Php255, a decrease of 21% compared to Php323 in the same period in 2004. The decline was similarly attributable to a decrease in the average text messaging revenue per subscriber as well as lower average outbound local and international voice revenue per subscriber and lower average inbound revenue per subscriber in the first nine months of 2005. On a net basis, ARPU in the first nine months of 2005 decreased by 23% to Php209 from Php272 in the same period in 2004.

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

Gross monthly ARPU for postpaid subscribers increased by 7% to Php1,850 while net monthly ARPU increased by 7% to Php1,335 in the first nine months of 2005 compared to the same period in 2004. Prepaid and postpaid monthly gross blended ARPU was Php349 in the first nine months of 2005, a decrease of 20% compared to Php436 in the same period in 2004. Monthly net blended ARPU decreased by 21% to Php284 in the first nine months of 2005 from Php359 in the same period in 2004.

Our quarterly prepaid and postpaid ARPUs for 2005 and 2004 are as follows:

	Prepaid				**Postpaid**	
	Smart		**Piltel**		**Smart**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
2004						
First Quarter	Php463	Php383	Php341	Php287	Php1,736	Php1,326
Second Quarter	455	380	341	289	1,683	1,239
Third Quarter	399	329	287	241	1,780	1,176
Fourth Quarter	395	328	275	220	1,763	1,402
2005						

First Quarter	Php356	Php289	Php269	Php220	Php1,767	Php1,257
Second Quarter	357	294	262	212	1,896	1,360
Third Quarter	343	285	234	194	1,889	1,389

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.

Prior to June 2004, a prepaid cellular subscriber was recognized as an active subscriber when that subscriber activated and used the SIM card in the handset, which contained pre-stored air time. The pre-stored air time, which can be used for both voice and text, was reduced from Php100 to Php50 in April 2004. In May 2005, this was changed to Php1 plus 50 free SMS which could 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 that are sold in denominations of Php300, Php500 and Php1,000; by purchasing additional air time over the air via *Smart Load* in smaller denominations of Php30, Php60, Php115 and Php200; 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 example, if a customer activated a SIM card in April but had not reloaded by May 31, this customer would not be counted as a subscriber. The rationale for this change stems from our observance of SIM-swapping activities in the market. SIM-swapping refers to the promotional activity wherein subscribers can exchange their current prepaid SIM card for another operator s SIM card at no cost to the subscriber. We believe that these activities have given rise to a situation where certain subscribers swap their SIM cards between mobile operators upon full usage of the pre-stored air time, which may result in our subscriber base reflecting a certain number of transient subscribers at any one point in time. In May 2005, we terminated our SIM swapping promotions; as a result, our churn rates have increased during the third quarter of 2005. We expect this trend to continue in the next few months as the subscribers acquired through SIM swapping leave the system.

For Smart prepaid, the average monthly churn rate for the first nine months of 2005 was 3.7%, compared to 2.4% in the same period in 2004 while the average monthly churn rate for *Talk N Text* subscribers was 4.5% in the first nine months of 2005 compared to 3.2% in the same period in 2004. The increased churn in our prepaid service can be primarily attributed to the termination of SIM-swapping activities described above.

The average monthly churn rate for Smart's postpaid subscribers for the first nine months of 2005 was 2.1%, compared to 1.0% in the same period in 2004 as a result of increased competition in this market segment. 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.

Satellite, VSAT, Wireless Broadband and Other Services

Our revenues from satellite, VSAT, wireless broadband and other services consist mainly of rentals received for the lease of Mabuhay Satellite's transponders and Telesat's VSAT facilities to other companies, wireless broadband service revenues for Meridian, charges for ACeS Philippines satellite phone service and service revenues generated from a PLDT Global subsidiary s mobile virtual network operations. Meridian offers a number of wireless broadband services with about 12,500 subscribers as of September 30, 2005, including approximately 9,000 *Smart WiFi* subscribers.

Gross revenues from these services for the first nine months of 2005 amounted to Php1,568 million, an increase of Php143 million, or 10%, from Php1,425 million in the same period in 2004.

Non-service Revenues

Our wireless non-service revenues consist of:

- Proceeds from sale of cellular handsets; and
- Proceeds from sale of cellular SIM-packs.

Our wireless non-service revenues decreased by Php3,051 million, or 60%, to Php1,999 million in the first nine months of 2005 as compared to Php5,050 million in the same period in 2004 mainly attributable to lower handset sales. In the first nine months of 2005, activations were driven more by SIM-pack sales.

Other Income

All other income/gains such as rental income, gain on disposal of property, which do not fall under service and non-service revenues are included under this classification. Our wireless business segment generated other income of Php665 million in the first nine months of 2005, a decrease of Php3,921 million, or 85%, from Php4,586 million in the same period in 2004. This was primarily a result of a net gain of Php4,419 million relating to Piltel s debt swap/exchange in 2004.

Expenses

Expenses associated with our wireless business in the first nine months of 2005 amounted to Php30,252 million, a decrease of Php3,811 million, or 11%, from Php34,063 million in the same period in 2004. A significant portion of this decrease was attributable to lower cost of sales, financing costs, and depreciation and amortization, partially offset by higher cash expenses particularly rent and maintenance. As a percentage of our total wireless revenues and other income, expenses associated with our wireless business decreased to 52% in the first nine months of 2005 from 56% in the same period in 2004.

Cellular business expenses accounted for 96% of our wireless business expenses while satellite, VSAT, wireless broadband and other business expenses accounted for the remaining 4% of our wireless business expenses in the first nine months of 2005 and 2004.

The following table summarizes our wireless-related expenses for the nine months ended September 30, 2005 and 2004 and the percentage of each expense item to the total:

	Nine months ended September 30,					
					Increase (Decrease)	
	2005	**%**	**2004**(1) (Unaudited)	**%**	**Amount**	**%**
(in millions)						
Wireless services						
Depreciation and amortization	Php7,354	24	Php8,664	25	(Php1,310)	(15)
Cost of sales	4,805	16	8,803	26	(3,998)	(45)
Rent	3,696	12	1,923	6	1,773	92
Compensation and benefits(2)	2,907	10	2,710	8	197	7
Maintenance	2,516	8	1,880	5	636	34
Selling and promotions	2,325	8	2,552	7	(227)	(9)
Financing costs	1,815	6	3,292	10	(1,477)	(45)
Professional and other contracted services	1,001	3	921	3	80	9
Taxes and licenses	963	3	663	2	300	45
Insurance and security services	733	3	691	2	42	6
Communication, training and travel	714	2	570	2	144	25
Provisions	490	2	424	1	66	16
Amortization of intangible assets	267	1	67		200	299
Other expenses	666	2	903	3	(237)	(26)
Total	Php30,252	100	Php34,063	100	(Php3,811)	(11)

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(1) As restated to reflect the effects of the changes in accounting policies, as discussed in Note 2 Summary of Significant Accounting Policies and Practices Changes in Accounting Policies to the accompanying unaudited consolidated financial statements.

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

Depreciation and amortization charges decreased by Php1,310 million, or 15%, to Php7,354 million in the first nine months of 2005 substantially due to a decrease in the depreciable asset base as certain of our wireless assets were fully depreciated by the end of 2004, partially offset by the effect of our change in estimated useful lives of certain components of property, plant and equipment consistent with the requirements of PAS 16 which increased depreciation charges for the first nine months of 2005. For further details, see *Note 2 Summary of Significant Accounting Policies and Practices Changes in Accounting Policies* to the accompanying unaudited consolidated financial statements.

Cost of sales decreased by Php3,998 million, or 45%, to Php4,805 million as activations in the first nine months of 2005 were driven more by SIM-pack sales compared to handset sales in the same period in 2004. The breakdown of cost of sales for our wireless business for the nine months ended September 30, 2005 and 2004 is as follows:

	Nine months ended September 30,			
			Decrease	
	2005	**2004**	**Amount**	**%**
	(Unaudited)			
Cost of cellular handsets and SIM-packs sold	Php4,623	Php8,601	(Php3,978)	(46)
Cost of satellite air time and terminal units	182	202	(20)	(10)
	Php4,805	Php8,803	(Php3,998)	(45)

Rent expenses increased by Php1,773 million, or 92%, to Php3,696 million on account of an increase in the number of leased lines, transmission links and higher cell site space rentals for the increased number of cell sites. As at September 30, 2005, we had 4,236 GSM cell sites and 5,831 base stations, compared with 3,735 GSM cell sites and 5,006 base stations as at September 30, 2004.

Compensation and benefits expenses increased by Php197 million, or 7%, to Php2,907 million primarily due to salary increases and higher pension benefit expenses of Smart. On the other hand, Smart s employee headcount decreased by 93, or 2%, to 5,015 in the first nine months of 2005 compared to 5,108 in the same period in 2004.

Maintenance expenses increased by Php636 million, or 34%, to Php2,516 million mainly on account of higher expenses for electricity and power generation for cell sites and higher repairs and maintenance costs for network and information technology equipment.

Selling and promotion expenses decreased by Php227 million, or 9%, to Php2,325 million due to lower advertising and promotions costs incurred.

Financing costs in the first nine months of 2005 amounted to Php1,815 million, a decrease of Php1,477 million, or 45%, from Php3,292 million in the same period in 2004, primarily as a result of a 1% and 10% appreciation of the Philippine peso to the U.S. dollar and Japanese yen, respectively, from December 31, 2004 to September 30, 2005. Foreign exchange losses were recorded in the same period in 2004 with the peso depreciation against the U.S. dollar by 1%, partially offset by approximately 1% peso appreciation against the Japanese yen from December 31, 2003 to September 30, 2004. In addition, interest income increased due to higher cash balances in 2005 as compared to 2004. The breakdown of our financing costs for wireless business for the nine months ended September 30, 2005 and 2004 is as follows:

	Nine months ended September 30,			
			Change	
	2005	2004	Amount	%
	(Unaudited)			
Accretion on financial liabilities net	Php1,949	Php2,106	(Php157)	(7)
Interest on loans and related items	1,373	1,423	(50)	(4)
Foreign exchange (gains) losses net	(1,039)	282	(1,321)	(468)
Interest income	(812)	(618)	(194)	31
Loss (gain) on derivative transactions net	141	(57)	198	347
Dividends on preferred stock subject to mandatory redemption	196	210	(14)	(7)
Financing charges	50	27	23	85
Capitalized interest	(43)	(81)	38	47
	Php1,815	Php3,292	(Php1,477)	(45)

Professional and other contracted services increased by Php80 million, or 9%, to Php1,001 million mainly as a result of increased technical service, consultancy and payment facility fees.

Taxes and licenses increased by Php300 million, or 45%, to Php963 million mainly due to an increase in Smart s business-related taxes.

Insurance and security services increased by Php42 million, or 6%, to Php733 million mainly due to the increase in our number of cell sites and in the amount of network equipment insured as a result of the continued growth and expansion of our network.

Communication, training and travel expenses increased by Php144 million, or 25%, to Php714 million due to higher local travel and training costs, as well as increase in delivery and freight and hauling expense incurred in the first nine months of 2005 compared to the same period in 2004.

Provisions increased by Php66 million, or 16%, to Php490 million mainly due to a net reversal of provision for carrier accounts in the nine months ended September 30, 2004 following subsequent collections from such carrier accounts. The breakdown of provisions for the nine months ended September 30, 2005 and 2004 is as follows:

	Nine months ended September 30,			
			Increase	
	2005	**2004**	**Amount**	**%**
	(Unaudited)			
Doubtful accounts	Php149	Php95	Php54	57
Write-down of inventories at net realizable value	341	329	12	4
	Php490	Php424	Php66	16

Amortization of intangible assets increased by Php200 million, or 299%, to Php267 million due to the amortization of Meridian s intangible assets from September 2004 onwards.

Other expenses decreased by Php237 million, or 26%, to Php666 million due to a decline in various business and operational-related expenses such as office supplies and public relations expenses.

Provision for Income Tax

Provision for income tax increased by Php998 million, or 18%, to Php6,431 million in the first nine months of 2005 from Php5,433 million in the same period in 2004 as Smart s income tax holiday expired in the second quarter of 2004 and as Piltel s income tax position reversed from net tax loss to net tax payable. In the first nine months of 2005, the effective tax rate for our wireless business was 23% compared to 21% in the same period in 2004.

Smart's three-year income tax holiday, which expired in May 2004, applied to the incremental income generated from its GSM network expansion. The income tax holiday was computed by applying the exemption rate against the income tax derived from GSM operations. The exemption rate was computed by dividing the incremental revenues by eligible GSM revenues (both gross of interconnection revenues) where the incremental GSM revenues were derived by deducting the Board of Investments, or BOI-prescribed base figure (Smart s gross GSM revenue in 2000) from the total GSM revenues. After adjusting for non-deductible items and unrealized and realized foreign exchange losses, Smart s net taxable income was multiplied by the statutory corporate income tax rate of 32% and the exemption rate. The resulting figure was the income tax holiday that was deducted from the income tax due on GSM revenues with the difference being the income tax due for the period.

Net Income

Our wireless business segment recorded a net income of Php20,965 million in the first nine months of 2005, an increase of Php76 million over Php20,889 million registered in the same period in 2004 due primarily to the growth in our cellular service revenues and an 11% decrease in wireless expenses, which more than offset the decreases in our wireless non-service revenues and other income.

Fixed Line

Revenues and Other Income

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Total fixed line revenues generated from our fixed line business in the first nine months of 2005 totaled
Php36,847 million, an increase of Php717 million, or 2%, from Php36,130 million in the same period in 2004.

The following table summarizes revenues from our fixed line business for the nine months ended September 30, 2005 and 2004 by service segment:

	Nine months ended September 30,					
					Increase (Decrease)	
	2005	**%**	**2004**(1) (Unaudited)	**%**	**Amount**	**%**
(in millions)						
Fixed line services:						
Service Revenues						
Local exchange	Php15,377	42	Php15,752	44	(Php375)	(2)
International long distance	9,369	25	9,571	26	(202)	(2)

National long distance	3,859	11	5,221	14	(1,362)	(26)
Data and other network	7,162	19	4,631	13	2,531	55
Miscellaneous	929	3	704	2	225	32
	36,696	100	35,879	99	817	2
Other Income	151		251	1	(100)	(40)
Total Fixed Line Revenues and Other Income	Php36,847	100	Php36,130	100	Php717	2

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(1) As restated to reflect the effects of the changes in accounting policies, as discussed in Note 2 Summary of Significant Accounting Policies and Practices Changes in Accounting Policies to the accompanying unaudited consolidated financial statements.

Service Revenues

Local Exchange Service

Our local exchange service revenues consist of:

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

The following table summarizes key measures of our local exchange service business as at and for the nine months ended September 30, 2005 and 2004:

	Nine months ended September 30,		Increase (Decrease)	
	2005	2004	Amount	%
	(Unaudited)			
Total local exchange service revenues (in millions)	Php15,377	Php15,752	(Php375)	(2)
Number of fixed lines in service	2,131,861	2,184,411	(52,550)	(2)
Number of fixed line employees	9,494	9,910	(416)	(4)
Number of fixed lines in service per employee	225	220	5	2

Revenues from our local exchange service decreased by Php375 million, or 2%, to Php15,377 million in the first nine months of 2005 from Php15,752 million in the same period in 2004. The decrease was primarily due to the 2% decline in number of fixed lines in service and the appreciation of the peso which required us to make downward adjustments in our monthly local service rates. The percentage contribution of local exchange revenues to our fixed line service revenues decreased to 42% in the first nine months of 2005 compared to 44% in the same period in 2004.

Fixed line net reduction in the first nine months of 2005 was 20,166 compared to a net reduction of 1,540 in the same period in 2004. While fixed line additions totaled 12,966 for postpaid fixed line services, prepaid fixed lines in service declined by 33,132 in the first nine months of 2005. As at September 30, 2005, postpaid and prepaid fixed line subscribers totaled 1,796,157 and 335,704, respectively, which accounted for approximately 84% and 16%, respectively, of our total fixed lines in service.

Initially intended as an affordable alternative telephone service for consumers under difficult economic conditions, our prepaid fixed line services now form an important part of our overall churn and credit risk exposure management and subscriber retention strategy. Prepaid subscribers are charged based on usage at a rate of Php1.00 per minute for local calls but the rates for prepaid and postpaid fixed line subscribers for national and international long distance calls are the same. A prepaid fixed line subscriber is recognized as an active subscriber when that subscriber activates and uses a prepaid call card. Prepaid fixed line subscribers can reload their accounts by purchasing call cards that are sold in denominations of Php500, Php300 and Php150. All sales of prepaid cards, whether through dealers or through PLDT's business offices, are non-refundable.

Pursuant to a currency exchange rate adjustment mechanism authorized by the Philippine National Telecommunications Commission, or the NTC, we adjust our monthly local service rates upward or downward by 1% for every Php0.10 change in the peso-to-dollar exchange rate relative to a base rate of Php11.00 to US$1.00. During the first nine months of 2005, we implemented four downward adjustments and three upward adjustments in our monthly local service rates compared to five upward adjustments and one downward adjustment in the same period in

2004. The average Philippine peso to U.S. dollar rate factored in our monthly local service rates in the first nine months of 2005 was Php55.15 to US$1.00, compared to the average of Php55.80 to US$1.00 in the same period in 2004. This change in the average peso-to-dollar rate translated to a peso appreciation of 1%, which resulted in an average net decrease of 1% in our monthly local service rates in the first nine months of 2005.

International Long Distance Service

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

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

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

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

The following table shows information about our international fixed line long distance business for the nine months ended September 30, 2005 and 2004:

	Nine months ended September 30,			
			Increase (Decrease)	
	2005	**2004**	**Amount**	**%**
	(Unaudited)			
Total international long distance service revenues (in millions)	Php9,369	Php9,571	(Php202)	(2)
Inbound	8,043	7,930	113	1
Outbound	1,326	1,641	(315)	(19)
International call volumes (in million minutes, except call ratio)	1,712	1,731	(19)	(1)
Inbound	1,606	1,615	(9)	(1)

Outbound	106	116	(10)	(9)
Inbound-outbound call ratio	15.1:1	13.9:1		

Our total international long distance service revenues decreased by Php202 million, or 2%, to Php9,369 million in the first nine months of 2005 from Php9,571 million in the same period in 2004 due to the decrease in call volumes largely as a result of alternative means of communications such as e-mailing, texting and internet telephony. The percentage contribution of international long distance service revenues to our fixed line service revenues decreased to 25% in the first nine months of 2005 from 26% in the same period in 2004.

Our revenues from inbound international long distance service increased by Php113 million in the first nine months of 2005 due to higher inbound average revenue per minute due to a favorable change in call mix, partially offset by the peso appreciation and a decrease in inbound traffic volume by 9 million minutes to 1,606 million minutes in the first nine months of 2005.

Our revenues from outbound international long distance service decreased by Php315 million in the first nine months of 2005 primarily due to a decline in outbound call volumes by
10 million minutes to 106 million minutes and the peso appreciation in the first nine months of 2005.

The 1% appreciation in the average value of the peso to the U.S. dollar to Php55.244 during the first nine months of 2005 from Php55.970 during the same period in 2004 contributed to the decrease in our inbound international long distance revenues in peso terms since settlement charges for inbound calls are billed in U.S. dollars or in special drawing rights, an established method of settlement among international telecommunications carriers using values based on a basket of foreign currencies that are translated into pesos at the time of billing.

On September 15, 2005, we introduced *PLDT ID-DSL*, a service that allows overseas calls for registered *myDSL* plan subscribers using a regular PLDT fixed line or a voice pad dialer for as low as US$0.10 per minute or US$0.08 per minute, respectively, depending on the subscribers   DSL plan/package.

To address the market   s demand for low-priced international calls, PLDT modified the *Budget Card*, a prepaid call card, offering a reduced IDD rate of Php5 per minute, as a promotional offer starting September 24, 2005, for calls to 89 overseas destinations including the United States, Canada, Japan and China. *Budget Cards* are sold in denominations of Php200 and Php100, which must be consumed within 30 days from first use.

National Long Distance Service

Our national long distance service revenues consist of:

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

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

The following table shows our national long distance service revenues and call volumes for the nine months ended September 30, 2005 and 2004:

	Nine months ended September 30,			
			Increase (Decrease)	
	2005	**2004**	**Amount**	**%**
		(Unaudited)		
Total national long distance service revenues (in millions)	Php3,859	Php5,221	(Php1,362)	(26)
National long distance call volumes (in million minutes)	1,464	1,407	57	4

Our national long distance service revenues decreased by Php1,362 million, or 26%, to Php3,859 million in the first nine months of 2005 from Php5,221 million in the same period in 2004 as a result of: (1) a decrease in average revenue per minute brought about by our fixed rate per call promotion starting February 14, 2005; and (2) the integration of local exchanges into a single calling area. Accordingly, the percentage contribution of national long distance revenues to our fixed line service revenues decreased to 11% for the first nine months of 2005 compared to 14% in the same period in 2004.

On February 14, 2005, we launched a Php10 per call promotion to any PLDT landline subscriber nationwide and to all Smart and *Talk N Text* subscribers. This promotion was launched with the objective of determining a more effective tariff structure that would stimulate landline usage. Under the promotion, NDD calls between any PLDT landline subscriber nationwide and to all Smart and *Talk 'N Text* subscribers are charged Php10 per call instead of being charged on a per minute basis.

On May 12, 2005, PLDT began offering the Php10 per call promotion with an additional Php5 per call for the same unlimited talktime to Smart and *Talk N Text* subscribers. PLDT to PLDT NDD calls below the equivalent Php10 toll usage are charged based on the regular rate per minute. On August 12, 2005, PLDT ceased offering the Php10 per call promotion to Smart and *Talk N Text* subscribers.

Beginning September 12, 2005, PLDT charges an optional Php20 add-on monthly service fee for PLDT landline subscribers who may want to continue to avail of the Php10 per call promotion for calls within our network.

Our national long distance call volumes increased by approximately 4% to 1,464 million minutes in the first nine months of 2005 from 1,407 million minutes in the same period in 2004. This was mainly due to the Php10 per call promotion offered to PLDT landline subscribers nationwide.

The integration of some of our local exchanges into a single local calling area, as approved by the NTC, also negatively affected our national long distance call volumes, and consequently, our revenues. Because of this integration, calls between two exchanges located within the same province are no longer considered national long distance calls but are treated as local calls.

Data and Other Network Services

Our data and other network services in the first nine months of 2005 posted revenues of Php7,162 million, an increase of Php2,531 million, or 55%, from Php4,631 million in the same period in 2004 primarily due to increases in leased lines and IP-based data services, particularly Diginet and DSL, respectively. The revenue contribution of this service segment to our fixed line service revenues increased to 19% in the first nine months of 2005 from 13% in the same period in 2004.

Data and other network services we currently provide include leased lines, IP-based, packet-based and switch-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.

Of our total revenues for the first nine months of 2005, leased lines accounted for 53%, IP-based services accounted for 30%, packet-based services accounted for 11% and switched-based services accounted for the remaining 6%, compared to 49%, 27%, 16% and 8%, respectively, in the same period in 2004. These percentage increases indicate a continuing demand for broadband services, particularly the high bandwidth clear data requirements of business process outsourcing companies, or BPOs, and call centers. We expect this trend to continue due to growth in the areas of e-commerce, online services and BPOs particularly among call centers, medical transcription, animation and shared services.

Internet-based products are bannered by *PLDT Vibe*, *PLDT DSL* (*myDSL and BizDSL*) and I-Gate. *PLDT Vibe,* or PLDT s dial-up/narrowband Internet service, is targeted for light to medium residential or individual internet users; while *PLDT DSL* broadband Internet service is targeted for heavy individual internet users as well as for small and medium enterprises. I-Gate, on the other hand, is targeted to enterprises and value-added service providers.

As at September 30, 2005, the number of PLDT s fixed line subscribers for *PLDT Vibe* stood at 370,821, of which 136,734 were exclusive postpaid users, 209,530 were exclusive prepaid users, and 24,557 were both postpaid and prepaid users. As at September 30, 2004, *PLDT Vibe* subscribers totaled 283,088, of which 120,105 were exclusive postpaid users, 137,715 were exclusive prepaid users, and 25,268 were both postpaid and prepaid users. In addition, PLDT *DSL* has reached 76,059 subscribers as at September 30, 2005 compared with 40,751 subscribers during the same period of 2004. PLDT offers a number of *DSL* packages with speeds and monthly fees varying from up to 256 kbps at Php999 per month to up to 1 Mbps at Php3,000 per month.

The continued growth in data services revenues can be attributed to several product offerings. The steady demand for dedicated connection or private networking from the corporate market using PLDT s traditional bandwidth offerings Fibernet, Arcstar, Acacia, I-Gate, Diginet, BRAINS, among others continues to provide us with a stable revenue source. In addition, we provide Smart s increasing fiber optic and leased line data requirements, which are included under our national data services.

In March 2005, we introduced *PLDT WeRoam,* a wireless broadband service offering running on Smart s nationwide wireless network (using GPRS, EDGE and WiFi technologies) and PLDT s extensive IP infrastructure. Some of the recent enhancements to the service are the inclusion of international roaming in key roaming countries all over the globe and national WiFi roaming access. Principally targeted to the corporate market, the service has experienced a take-up rate of more than 3,000 contracted customers as of September 30, 2005.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising and facilities rental. In the first nine months of 2005, these revenues increased by Php225 million, or 32%, to Php929 million from Php704 million in the same period in 2004. The improvement was mainly due to an increase in co-location charges from more co-location sites coupled with an increase in rent income on duct utilization and cable restoration. The percentage contribution of miscellaneous service revenues to our fixed line service revenues increased to 3% in the first nine months of 2005 from 2% in the same period in 2004.

Other Income

All other income/gains such as rental income, gain on disposal of property, which do not fall under service and non-service revenues are included under this classification. In 2005, our fixed line business segment registered a decrease in other income of Php100 million, or 40%, to Php151 million in the first nine months of 2005 from Php251 million in the same period in 2004 mainly due to lower service and facility fees.

Expenses

Expenses related to our fixed line business in the first nine months of 2005 totaled Php31,221 million, a decrease of Php2,445 million, or 7%, compared to Php33,666 million in the same period in 2004. The decrease was primarily due to lower financing costs partially offset by higher depreciation and amortization, selling and promotions and taxes and licenses expenses. As a percentage of our total fixed line revenues, fixed line-related expenses decreased to 85% in the first nine months of 2005, compared to 93% in the same period in 2004.

The following table shows the breakdown of our total fixed line-related expenses for the nine months ended September 30, 2005 and 2004 and the percentage of each expense item to the total:

	Nine months ended September 30,					
					Increase (Decrease)	
	2005	**%**	**2004**(1) (Unaudited)	**%**	**Amount**	**%**
(in millions)						
Fixed line services:						
Depreciation and amortization	Php8,998	29	Php7,589	23	Php1,409	19
Compensation and benefits(2)	6,216	20	6,164	18	52	1
Financing costs	5,795	19	9,363	28	(3,568)	(38)
Maintenance	2,587	8	2,493	7	94	4
Provisions	2,236	7	2,553	8	(317)	(12)
Selling and promotions	1,329	4	968	3	361	37
Rent	1,289	4	1,249	4	40	3
Professional and other contracted services	721	2	835	2	(114)	(14)
Taxes and licenses	620	2	468	1	152	32
Insurance and security services	504	2	535	2	(31)	(6)
Communication, training and travel	338	1	330	1	8	2
Asset impairment			365	1	(365)	(100)
Other expenses	588	2	754	2	(166)	(22)
Total	Php31,221	100	Php33,666	100	(Php2,445)	(7)

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(1) As restated to reflect the effects of the changes in accounting policies, as discussed in Note 2 Summary of Significant Accounting Policies and Practices Changes in Accounting Policies to the accompanying unaudited

consolidated financial statements.

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

Depreciation and amortization charges increased by Php1,409 million, or 19%, to Php8,998 million mainly due the effect of our change in estimated useful lives of certain components of property, plant and equipment consistent with the requirements of PAS 16, which resulted in increased depreciation charges for the first nine months of 2005, and higher depreciation of our regular asset base primarily resulting from additional completed projects.

Compensation and benefits expenses increased by Php52 million, or 1%, to Php6,216 million mainly due to the effect of the collective bargaining agreement-related increases on salaries and benefits of PLDT employees and an increase in incentive plan-related accruals partially offset by a reduction in headcount due to PLDT s MRP.

Financing costs decreased by Php3,568 million, or 38%, to Php5,795 million due to: (1) the strengthening of the peso relative to the U.S. dollar and Japanese yen resulting in foreign exchange gains in the first nine months of 2005 as compared to foreign exchange losses recorded during the first nine months of 2004; (2) lower interest on loans and related items owing to lower debt balances in the first nine months of 2005 compared with the same period in 2004; and (3) higher recorded gains on derivatives in the first nine months of 2005 as compared to the first nine months of 2004. The breakdown of our financing costs for our fixed line business for the nine months ended September 30, 2005 and 2004 is as follows:

	Nine months ended September 30,			
			Change	
	2005	**2004**	**Amount**	**%**
		(Unaudited)		
Interest on loans and related items	Php7,003	Php8,123	(Php1,120)	(14)
Loss (gain) on derivative transactions net	(1,001)	(359)	(642)	179
Foreign exchange (gains) losses net	(730)	982	(1,712)	(174)
Hedge cost	889	851	38	4
Capitalized interest	(305)	(390)	85	22
Interest income	(287)	(173)	(114)	(66)
Accretion on financial liabilities net	195	258	(63)	(24)
Financing charges	31	71	(40)	(56)
	Php5,795	Php9,363	(Php3,568)	(38)

Maintenance expenses increased by Php94 million, or 4%, to Php2,587 million primarily due to higher maintenance costs for foreign cable and wire facilities as more operating and maintenance-related restorations were incurred in the first nine months of 2005 as compared to the same period in 2004.

Provisions decreased by Php317 million, or 12%, to Php2,236 million primarily on account of a lower provision for onerous contracts by PLDT as a result of the peso appreciation partially offset by an increase in our provision for inventory obsolescence. The breakdown of provisions for our fixed line business for the nine months ended September 30, 2005 and 2004 is as follows:

	Nine months ended September 30,			
			Increase (Decrease)	
	2005	**2004**	**Amount**	**%**
		(Unaudited)		
Doubtful accounts	Php1,915	Php2,105	(Php190)	(9)
Write-down of inventories at net realizable value	153		153	100
Onerous contracts	168	448	(280)	(63)
	Php2,236	Php2,553	(Php317)	(12)

Selling and promotion expenses increased by Php361 million, or 37%, to Php1,329 million mainly as a result of an increase in PLDT s promotional activities in relation to various products and services, partially offset by lower commissions in 2005.

Rent expenses increased by Php40 million, or 3%, to Php1,289 million due to an increase in international leased circuits and rental charges occupied by various equipments, partially offset by lower rental for bundled sales/value added service units.

Professional and other contracted services decreased by Php114 million, or 14%, to Php721 million primarily due to lower advisory and legal fees in the first nine months of 2005 for various services, partially offset by an increase in facility management fees and collection agency fees.

Taxes and licenses increased by Php152 million, or 32%, to Php620 million mainly on account of higher NTC supervision and license fees and other business-related taxes paid in the first nine months of 2005 as compared to the same period in 2004.

Insurance and security services decreased by Php31 million, or 6%, to Php504 million primarily due to lower premiums on property all-risk, industrial all-risk and industrial fire insurance, partially offset by higher security services due to a rate increase per contracted security guard.

Communication, training and travel expenses increased by Php8 million, or 2%, to Php338 million due to an increase in mailing, courier and delivery services, as well as an increase in local travel and training in the first nine months of 2005 compared to the same period in 2004.

Asset impairment amounted to Php365 million in the first nine months of 2004 owing to an impairment of a fixed line subsidiary s facilities; no impairment charge was recognized in the first nine months of 2005.

Other expenses decreased by Php166 million, or 22%, to Php588 million due to lower office supplies consumption and printing costs resulting from PLDT s continuing cost-containing activities.

Provision for Income Tax

Provision for income tax increased by Php1,034 million, or 161%, to Php1,675 million in the first nine months of 2005 from Php641 million in the same period in 2004 due to higher income subject to tax. In the first nine months of 2005, our effective tax rate was 30%. Our effective tax rate was lower than the 32% statutory corporate tax rate due to income already subjected to final tax; income already subjected to lower tax rate; and equity in net income of our subsidiaries, which has already been subjected to tax and therefore, is no longer subject to income tax.

Net Income

In the first nine months of 2005, our fixed line business segment contributed a net income of Php3,951 million, compared to Php1,823 million in the same period in 2004 mainly as a result of a 7% decrease in fixed line-related expenses, particularly financing costs.

Information and Communications Technology

Revenues and Other Income

Our information and communications technology business is conducted by ePLDT and its subsidiaries.

In the first nine months of 2005, our information and communications technology business generated revenues of Php2,423 million, an increase of Php610 million, or 34%, from Php1,813 million in the same period in 2004. Going forward, we expect revenues from our call center business to continue to contribute significantly to our information and communications technology revenues with the growing demand for our call center services.

The following table summarizes revenues from our information and communications technology business for the nine months ended September 30, 2005 and 2004 by service segment:

	Nine months ended September 30,					
					Increase (Decrease)	
	2005	**%**	**2004**(1)	**%**	**Amount**	**%**
			(Unaudited)			
Service Revenues						