PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 6-K
May 09, 2006

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 May 2006, which includes financial statements for the three months ended March 31, 2006

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-_____)

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Three Months Ended March 31, 2006

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 Php51.158 to US$1.00, the volume weighted average exchange rate at March 31, 2006 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

	March 31, 2006	**December 31, 2005**	**Increase (Decrease) Amount**	**%**
(in millions, except for operational data, exchange rates and earnings per common share)	(Unaudited)	(Audited)		
Consolidated Balance Sheets				
Total assets	Php251,110	Php249,713	Php1,397	1
Property, plant and equipment	173,571	176,974	(3,403)	(2)
Cash and cash equivalents and short-term investments	37,945	32,810	5,135	16
Total equity	76,752	74,369	2,383	3
Interest-bearing financial liabilities	111,109	116,616	(5,507)	(5)
Notes payable and long-term debt	*98,987*	*103,544*	*(4,557)*	*(4)*
Net debt to equity ratio(1)	0.80x	0.95x		

	Three Months Ended March 31, 2006	**2005**	**Increase (Decrease) Amount**	**%**
		(Unaudited)		
Consolidated Statements of Income				
Revenues and other income	Php30,879	Php30,144	Php735	2
Expenses	19,602	17,430	2,172	12
Income before income tax	11,277	12,714	(1,437)	(11)
Net income attributable to equity holders	8,581	9,217	(636)	(7)
Net income	8,765	9,239	(474)	(5)
Net income margin	28%	31%		
Earnings per common share basic	46.74	51.93	(5.19)	(10)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	15,429	15,464	(35)	
Net cash used in investing activities	5,825	2,191	3,634	166
Capital expenditures	*4,869*	*4,263*	*606*	*14*
Net cash used in financing activities	3,997	10,459	(6,462)	(62)
Operational Data				
Number of cellular subscribers	20,899,631	20,252,513	647,118	3
Number of fixed lines in service	2,085,904	2,149,489	(63,585)	(3)
Number of broadband subscribers	140,110	57,843	82,267	142
Fixed Line	*101,195*	*56,960*	*44,235*	*78*
Wireless	*38,915*	*883*	*38,032*	*4,307*

Number of employees	20,134	18,581	1,553	8
Fixed Line	*9,160*	*9,620*	*(460)*	*(5)*
Wireless	*5,076*	*5,294*	*(218)*	*(4)*
ICT	*5,898*	*3,667*	*2,231*	*61*

Exchange Rates	**Php per US$**	**Php per JP¥**
March 31, 2006	Php51.158	Php0.4347
December 31, 2005	53.062	0.4504
March 31, 2005	54.747	0.5111
December 31, 2004	56.341	0.5495

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

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; Meridian Telekoms, Inc., or Meridian, our wireless broadband provider; Wolfpac Mobile, Inc., or Wolfpac, our wireless content operator, Mabuhay Satellite Corporation, or Mabuhay Satellite, ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, and Telesat, Inc., or Telesat, our satellite and very small aperture terminal, or VSAT, operators;

• *Fixed Line* fixed line telecommunications services are 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, or PLDT Global; 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., or ePLDT; call center services provided under one umbrella brand name *ePLDT Ventus*, including Parlance Systems, Inc., or Parlance and Vocativ Systems, Inc., or Vocativ; Internet access and gaming services provided by ePLDT s subsidiaries, Infocom Technologies, Inc. or Infocom, Digital Paradise, Inc., or Digital Paradise, Digital Paradise Thailand, Ltd., or Digital Paradise Thailand, netGames, Inc., or netGames, Airborne Access Corporation, or Airborne Access 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* to the accompanying unaudited consolidated financial statements.

We registered total revenues and other income of Php30,879 million in the first quarter of 2006, an increase of Php735 million, or 2%, as compared to Php30,144 million in the same period in 2005, primarily due to an increase in our service revenues and other income of Php700 million and Php141 million, respectively, partially offset by a decline in our non-service revenues of Php106 million.

Expenses increased by Php2,172 million, or 12%, to Php19,602 million in the first quarter of 2006 from Php17,430 million in the same period in 2005, largely resulting from increases in depreciation and amortization, and financing costs partly offset by lower cost of sales.

As a result of the foregoing, our net income decreased by Php474 million, or 5%, to Php8,765 million in the first quarter of 2006 from Php9,239 million in the same period in 2005. Consequently, basic earnings per common share decreased by 10% to Php46.74 in the first quarter of 2006 from Php51.93 in the same period in 2005.

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 for the three months ended March 31, 2006 and 2005. Most of our revenues are derived from our operations within the Philippines.

	Wireless	**Fixed Line**	**ICT**	**Inter-segment Transactions**	**Total**
(in millions)					
For the three months ended March 31, 2006 (Unaudited)					
Revenues and other income	Php19,697	Php12,269	Php872	(Php1,959)	Php30,879
Service	18,944	12,149	813	(1,931)	29,975
Non-service	646	13	53	(3)	709
Equity share in net income of associates			2		2
Other income	107	107	4	(25)	193
Expenses	9,567	11,136	858	(1,959)	19,602
Income before income tax	10,130	1,133	14		11,277
Net income for the period	7,894	842	29		8,765
	7,693	842	46		8,581

Net income attributable to equity shareholders									
For the three months ended March 31, 2005 (Unaudited)									
Revenues and other income	18,620		11,857		751		(1,084)	30,144	
Service	17,841		11,826		652		(1,044)	29,275	
Non-service	759				66		(10)	815	
Equity share in net income of associates					2			2	
Other income	20		31		31		(30)	52	
Expenses	9,038		8,755		721		(1,084)	17,430	
Income before income tax	9,582		3,102		30			12,714	
Net income for the period	6,937		2,272		30			9,239	
Net income attributable to equity shareholders	6,907		2,271		39			9,217	
Increase (Decrease)									
Revenues and other income	Php1,077	6	Php412	3	Php121	16	(Php875)	Php735	2
Service	1,103	6	323	3	161	25	(887)	700	2
Non-service	(113)	(15)	13	100	(13)	(20)	7	(106)	(13)
Other income	87	435	76	245	(27)	(87)	5	141	271
Expenses	529	6	2,381	27	137	19	(875)	2,172	12
Income before income tax	548	6	(1,969)	(63)	(16)	(53)		(1,437)	(11)
Net income for the period	957	14	(1,430)	(63)	(1)	(3)		(474)	(5)
Net income attributable to equity shareholders	786	11	(1,429)	(63)	7	18		(636)	(7)

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 three months ended March 31, 2006 and 2005 by service segment:

Three Months Ended March 31,

					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
(in millions)			(Unaudited)			
Wireless services:						
Service Revenues						
Cellular	Php18,205	92	Php17,188	92	Php1,017	6
Satellite, VSAT, wireless broadband and others	739	4	653	4	86	13
	18,944	96	17,841	96	1,103	6
Non-service Revenues						
Sale of cellular handsets and SIM-packs	646	3	759	4	(113)	(15)
Other Income	107	1	20		87	435
Total Wireless Revenues and Other Income	Php19,697	100	Php18,620	100	Php1,077	6

Service Revenues

Our wireless service revenues increased by Php1,103 million, or 6%, to Php18,944 million in the first quarter of 2006 compared to Php17,841 million in the same period in 2005, mainly as a result of the growth of Smart s and Piltel s subscriber base. As a percentage of our total wireless revenues and other income, service revenues remained relatively flat at 96% in the first quarter of 2006 and 2005.

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 quarter of 2006 amounted to Php18,205 million, an increase of Php1,017 million, or 6%, from Php17,188 million in the same period in 2005. Cellular service revenues accounted for 96% of our wireless service revenues in the first quarter of 2006 and 2005.

As at March 31, 2006, Smart and Piltel cellular subscribers reached 20,899,631, an increase of 647,118, or 3%, over their combined cellular subscriber base of 20,252,513 as at March 31, 2005. Prepaid subscribers accounted for 99% of our total subscriber base as at March 31, 2006 and 2005. Prepaid and postpaid subscribers totaled 20,614,552 and 285,079 as at March 31, 2006, reflecting net subscriber activations of 486,009 and 5,001, respectively, in the first quarter of 2006.

Smart markets nationwide cellular communications services under the brand names *Smart Buddy, Smart Gold, addict mobile, addict mobile prepaid*, or *amp*, *Smart Infinity* and *Smart Kid prepaid. Smart Buddy, amp* and *Smart Kid prepaid* are prepaid services while *Smart Gold, Smart Infinity* and *addict mobile* 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.

Beginning March 11, 2005, Smart launched a series of promotions to test the market demand for fixed rate or bucket plans for voice and text services. Under a service branded as *Smart 258*, Smart and *Talk N Text* subscribers had the option to register for unlimited on-network (Smart-to-Smart) voice calls or unlimited on-network (Smart-to-Smart) text messaging service. Since launch, the promotion has taken on several variations involving changes in load denominations, the periods of network availability (peak/off-peak) as well as a double text variation.

The current *Smart 258* promotion, which has been extended until June 2, 2006, has the following features:

- Unlimited Text Php15, Php30 and Php60 denominations with expiry periods of one, two and four days, respectively, with unlimited on-network text all day service; and

• Text and Call Combo Php20 load denomination with unlimited text on-network for one day and a call with a maximum duration of five minutes and valid within 24 hours.

On August 23, 2005, Smart also operated 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 of up to three minutes for Php10, or extend up to five minutes for a flat rate of Php15. The flat rate promotion was relaunched on February 11, 2006 and is valid until May 13, 2006.

On February 12, 2006, Smart introduced a new variety of top-ups *Smart Load* All Text, which allows 10 and 20 messages without expiration for a suggested retail price of Php12 and Php23, respectively. On May 1, 2006, the number of messages allocated for the 10-message load was increased to 15. This promotion offering the additional five messages is effective until May 31, 2006.

On April 1, 2006, Smart rolled-out *Smart Click*, a chain of mobile Internet cafés. *Smart Click* Internet cafés are currently housed in air-conditioned 40-foot container vans and designed to provide remote communities with high-speed, wireless Internet access nationwide. *Smart Click* has established 12 mobile Internet cafés to-date and plans to open at least 20 branches within the first half of 2006.

On February 14, 2006, Smart launched its third generation or 3G service on a free-trial basis. Subscribers using Smart s network with 3G handsets in selected key areas could avail of services such as video calling, video streaming, high-speed internet browsing and special 3G content downloading under Smart s 3G network.

On May 1, 2006, Smart unveiled new and expanded 3G services and announced as well the commercial rates of its 3G services. Under the introductory pricing scheme that took effect on May 1, Smart 3G rates are aligned with existing 2G rates while some services remain free of charge.

• Smart-to-Smart video calls remain free of charge while international video calls , initially available in three countries, are priced similarly to a regular IDD call at US$0.40 per minute;

• all 3G video and audio streaming are charged a Php15 access fee for every 30 minutes plus a separate fee for content;

• 3G Internet and WAP browsing are priced at Php10 for every 30 minutes;

• downloads of 3G content such as video clip, ringtones, visual ringers and games range from Php20 to Php50 per download; and

• MMS among all Smart subscribers has been set at Php1 per MMS and Php2 for Smart-to-other networks.

The following table summarizes key measures of our cellular business as at and for the three months ended March 31, 2006 and 2005:

	Three Months Ended March 31,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
(in millions)		(Unaudited)		
Cellular service revenues	Php18,205	Php17,188	Php1,017	6
By component	*17,647*	*16,714*	*933*	*6*
Voice	8,246	8,326	(80)	(1)
Data	9,401	8,388	1,013	12
By service type	*17,647*	*16,714*	*933*	*6*
Prepaid	16,486	15,695	791	5
Postpaid	1,161	1,019	142	14
Others(1)	*558*	*474*	*84*	*18*

(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 and Smart Money Holdings Corporation and a small number of leased line contracts.

	March 31,			
			Increase	
	2006	**2005**	**Amount**	**%**
		(Unaudited)		
Cellular subscriber base	20,899,631	20,252,513	647,118	3
Prepaid	20,614,552	19,984,376	630,176	3
Smart	15,256,105	15,242,173	13,932	
Piltel	5,358,447	4,742,203	616,244	13
Postpaid	285,079	268,137	16,942	6

	Three Months Ended March 31,			
			Increase (Decrease)	
	2006	**2005**(1)	**Amount**	**%**
		(Unaudited)		
Systemwide traffic volumes (in millions)				
Calls (in minutes)	1,385	1,307	78	6
Domestic	868	945	(77)	(8)
International	517	362	155	43
Inbound	476	319	157	49
Outbound	41	43	(2)	(5)
Text messages	49,721	11,565	38,156	330
Standard	9,186	10,561	(1,375)	(13)
258 Unlimited	40,535	1,004	39,531	3,937

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(1) Smart 258 Unlimited Call and Text promotion was launched on March 11, 2005.

Voice Services

Cellular revenues from voice services, which include all voice traffic and voice value-added services such as voice mail and international roaming, decreased by Php80 million, or 1%, to Php8,246 million in the first quarter of 2006 from Php8,326 million in the same period in 2005, primarily due to a 12% drop in the average outbound voice usage per subscriber from 17 minutes per month in the first quarter of 2005 to 15 minutes per month in the same period in 2006.

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 Php1,013 million, or 12%, to Php9,401 million in the first quarter of 2006 from Php8,388 million in the same period in 2005. Cellular data services accounted for 52% of cellular service revenues in the first quarter of 2006, compared to 49% in the same period in 2005.

The following table shows the breakdown of cellular data revenues for the three months ended March 31, 2006 and 2005:

	Three Months Ended March 31,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
		(Unaudited)		
(in millions)				
Text messaging				
Domestic	Php8,052	Php6,689	Php1,363	20
Standard	6,001	6,551	(550)	(8)
258 Unlimited	2,051	138	1,913	1,386
International	434	452	(18)	(4)
	8,486	7,141	1,345	19
Value-added services				
Non-Zed(1)	613	680	(67)	(10)
*Smart Zed*TM	100	172	(72)	(42)
Smart Money	23	21	2	10
Mobile Banking	1	1		
Roaming SMS and WAP	178	373	(195)	(52)
	915	1,247	(332)	(27)
Total	Php9,401	Php8,388	Php1,013	12

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

Text messaging-related services contributed revenues of Php8,486 million in the first quarter of 2006, an increase of Php1,345 million, or 19%, compared to Php7,141 million in the same period in 2005, and accounted for 90% and 85% of the total cellular data revenues in the first quarter of 2006 and 2005. The increase in revenues from text messaging-related services resulted mainly from the ongoing *Smart 258 Unlimited Text* promotion and an increase in *Pasa Load* transactions. Text messaging revenues from the *Smart 258* promotions totaled Php2,051 million. Value-added services, which contributed revenues of Php915 million in the first quarter of 2006, decreased by Php332 million, or 27%, from Php1,247 million in the same period in 2005 primarily due to lower usage of roaming SMS and WAP, *Smart Zed*TM and non-Zed services in the first quarter of 2006 as compared to the same period in 2005.

Text messages, excluding *Smart 258* messages, totaled 9,186 million in the first quarter of 2006, a decrease of 1,375 million, or 13%, from 10,561 million in the same period in 2005 due to a shift to unlimited texting service. *Smart 258* messages in the first quarter of 2006 totaled 40,535 million, an increase of 39,531 million as compared to 1,004 million in the same period in 2005.

Subscriber Base, ARPU and Churn Rates

Prepaid subscribers accounted for approximately 99% of our 20,899,631 subscribers as at March 31, 2006, while postpaid subscribers accounted for the remaining 1%. The cellular prepaid subscriber base grew by 3% to 20,614,552 as at March 31, 2006 from 19,984,376 as at March 31, 2005, whereas the postpaid subscriber base increased by 6% to 285,079 as at March 31, 2006 from 268,137 as at March 31, 2005.

Our net subscriber activations (reductions) for the three months ended March 31, 2006 and 2005 were as follows:

	Three Months Ended March 31,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
		(Unaudited)		
Prepaid				
Smart(1)	111,987	920,885	(808,898)	(88)
Piltel	374,022	129,753	244,269	188
Postpaid	5,001	(6,357)	11,358	179
Total	491,010	1,044,281	(553,271)	(53)

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(1) Subscriber activations were higher in 2005 due to the SIM-swapping promotion which was terminated only in May 2005.

Revenues attributable to our cellular prepaid service amounted to Php16,486 million in the first quarter of 2006, a 5% increase over the Php15,695 million earned in the same period in 2005. Prepaid service revenues in the first quarter of 2006 and 2005 accounted for 93% and 94%, respectively, of voice and data revenues. Revenues attributable to Smart s postpaid service amounted to Php1,161 million in the first quarter of 2006, a 14% increase over the Php1,019 million earned in the same period in 2005 and accounted for 7% and 6% of voice and data revenues in the first quarter of 2006 and 2005, respectively.

The following table summarizes our cellular ARPUs for the three months ended March 31, 2006 and 2005:

Three Months Ended March 31,

	Gross		Increase (Decrease)		Net		Increase (Decrease)	
	2006	2005	Amount	%	2006	2005	Amount	%
	(Unaudited)							
Prepaid								
Smart	Php356	Php356	Php		Php294	Php289	Php5	2
Piltel	245	269	(24)	(9)	207	220	(13)	(6)
Prepaid Blended	328	335	(7)	(2)	272	273	(1)	
Postpaid Smart	1,867	1,767	100	6	1,386	1,257	129	10
Prepaid and Postpaid Blended	349	355	(6)	(2)	287	286	1	

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 first quarter of 2006 and 2005 was Php356. The average outbound local and international voice revenue per subscriber declined in the first quarter of 2006 compared to the same period in 2005, but was offset by an increase in the average text messaging revenue and inbound international revenue per subscriber. On a net basis, ARPU in the first quarter of 2006 increased by 2% to Php294 from Php289 in the same period in 2005. Gross monthly ARPU for *Talk N Text* subscribers in the first quarter of 2006 was Php245, a decrease of 9% compared to Php269 in the same period in 2005. The decline was attributable to the decrease in the average outbound local voice revenue per subscriber as well as the average inbound revenue per subscriber partly offset by an increase in the average text messaging revenue per subscriber. On a net basis, ARPU in the first quarter of 2006 decreased by 6% to Php207 from Php220 in the same period in 2005.

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 6% to Php1,867 while net monthly ARPU increased by 10% to Php1,386 in the first quarter of 2006 as compared to Php1,767 and Php1,257 in the same period in 2005, respectively. Prepaid and postpaid monthly gross blended ARPU was Php349 in the first quarter of 2006, a decrease of 2% compared to Php355 in the same period in 2005. Monthly net blended ARPU increased to Php287 in the first quarter of 2006 from Php286 in the same period in 2005.

Our quarterly prepaid and postpaid ARPUs for the three months ended March 31, 2006 and 2005 were as follows:

	Prepaid				**Postpaid**	
	Smart		**Piltel**		**Smart**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
			(Unaudited)			
2006						
First Quarter	Php356	Php294	Php245	Php207	Php1,867	Php1,386
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
Fourth Quarter	370	308	261	220	1,923	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.

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; by purchasing additional air time over the air via *Smart Load* or *Smart Load* All Text ; 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 increased beginning in the third quarter of 2005 and continuing on to the first quarter of 2006.

For Smart prepaid, the average monthly churn rate for the first quarter of 2006 was 3.4%, compared to 2.7% in the same period in 2005, while the average monthly churn rate for *Talk N Text* subscribers was 3.7% in the first quarter of 2006 compared to 4.6% in the same period in 2005. The increased churn in our prepaid service can be attributed primarily to the residual effect of the termination of the SIM-swapping activities described above.

The average monthly churn rate for Smart's postpaid subscribers for the first quarter of 2006 was 1.3%, compared to 2.5% in the same period in 2005. 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 38,915 subscribers as of March 31, 2006, including 35,105 *Smart WiFi* subscribers. *Smart WiFi*, the fixed wireless broadband service of Smart linked to Smart wireless broadband-enabled base stations, allows people to connect to the Internet using an outdoor aerial antenna installed in a subscriber s home. In April 2006, this service was relaunched as *Smart Bro*.

Gross revenues from these services for the first quarter of 2006 amounted to Php739 million, an increase of Php86 million, or 13%, from Php653 million in the same period in 2005 principally due to the growth in our wireless broadband business.

Non-service Revenues

Our wireless non-service revenues consist of:

- proceeds from sales of cellular handsets; and

- proceeds from sales of cellular SIM-packs.

Our wireless non-service revenues decreased by Php113 million, or 15%, to Php646 million in the first quarter of 2006 as compared to Php759 million in the same period in 2005, primarily due to lower handset sales. In the first quarter of 2006, activations were driven more by SIM-pack sales.

Other Income

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. Our wireless business segment generated other income of Php107 million in the first quarter of 2006, an increase of Php87 million, or 435%, as compared to Php20 million in the same period in 2005.

Expenses

Expenses associated with our wireless business in the first quarter of 2006 amounted to Php9,567 million, an increase of Php529 million, or 6%, from Php9,038 million in the same period in 2005. A significant portion of this increase was attributable to higher rent, provisions and compensation and benefits, partially offset by lower cost of sales and selling and promotions. As a percentage of our total wireless revenues and other income, expenses associated with our wireless business remained flat at 49% in the first quarter of 2006 and 2005.

Cellular business expenses accounted for 95% of our wireless business expenses, while satellite, VSAT, wireless broadband and other business expenses accounted for the remaining 5% of our wireless business expenses in the first quarter of 2006 as compared to 96% and 4%, respectively, in the same period in 2005.

The following table summarizes the breakdown of our wireless-related expenses for the three months ended March 31, 2006 and 2005 and the percentage of each expense item to the total:

	Three Months Ended March 31,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
			(Unaudited)			
(in millions)						
Wireless services						
Depreciation and amortization	Php2,576	27	Php2,460	27	Php116	5
Rent	1,702	18	967	11	735	76
Cost of sales	1,202	12	2,004	22	(802)	(40)
Compensation and benefits(1)	1,042	11	844	9	198	23
Maintenance	923	10	782	9	141	18
Selling and promotions	793	8	1,034	12	(241)	(23)
Professional and other contracted services	422	4	358	4	64	18
Taxes and licenses	347	4	376	4	(29)	(8)
Communication, training and travel	253	3	242	3	11	5
Insurance and security services	215	2	246	3	(31)	(13)

Provisions	158	2	(54)	(1)	212	393
Amortization of intangible assets	63	1	71	1	(8)	(11)
Financing costs	(360)	(4)	(507)	(6)	147	29
Other expenses	231	2	215	2	16	7
Total	Php9,567	100	Php9,038	100	Php529	6

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

Depreciation and amortization charges increased by Php116 million, or 5%, to Php2,576 million in the first quarter of 2006, principally due to additional depreciation provided for certain equipment amounting to Php176 million and Php120 million for the first quarter of 2006 and 2005, respectively; the useful lives of these certain equipment have been shortened due to network and equipment upgrade. For further details, see *Note 8 Property, Plant and Equipment* to the accompanying unaudited consolidated financial statements.

Rent expenses increased by Php735 million, or 76%, to Php1,702 million on account of an increase in domestic fiber optic network, or DFON, facilities leased by Smart from PLDT and site rental expense. As at March 31, 2006, we had 4,329 GSM cell sites and 6,043 base stations, compared with 4,071 GSM cell sites and 5,480 base stations as at March 31, 2005.

Cost of sales decreased by Php802 million, or 40%, to Php1,202 million due to a decrease in volume of phone kits sold and the termination of SIM-swapping activities in May 2005. The breakdown of cost of sales for our wireless business for the three months ended March 31, 2006 and 2005 is as follows:

	Three Months Ended March 31,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
	(Unaudited)			
(in millions)				
Cost of cellular handsets and SIM-packs sold	Php1,155	Php1,959	(Php804)	(41)
Cost of satellite air time and terminal units	47	45	2	4
	Php1,202	Php2,004	(Php802)	(40)

Compensation and benefits expenses increased by Php198 million, or 23%, to Php1,042 million, primarily due to salary increases and higher long-term incentive costs of Smart. On the other hand, Smart s employee headcount decreased by 220, or 4%, to 5,024 in the first quarter of 2006 compared to 5,244 in the same period in 2005.

Maintenance expenses increased by Php141 million, or 18%, to Php923 million, mainly on account of higher expenses for electricity and power generation for cell sites and higher repairs and maintenance costs for network facilities and information technology equipment.

Selling and promotion expenses decreased by Php241 million, or 23%, to Php793 million due to efficient media spending and termination of certain media contracts.

Professional and other contracted services increased by Php64 million, or 18%, to Php422 million, primarily due to increased legal, technical service, call center and contracted service fees.

Taxes and licenses decreased by Php29 million, or 8%, to Php347 million primarily due to a decrease in Smart s business-related taxes.

Communication, training and travel expenses increased by Php11 million, or 5%, to Php253 million, due to higher foreign-related expenses incurred in the first quarter of 2006.

Insurance and security services decreased by Php31 million, or 13%, to Php215 million, primarily due to the decrease in site security expenses and lower amortization charges on prepaid insurance contracts.

Provisions increased by Php212 million, or 393%, to Php158 million, primarily due to an increase in write-down of slow-moving handsets to net realizable values. The breakdown of provisions for the three months ended March 31, 2006 and 2005 is as follows:

	Three Months Ended March 31,			
			Increase	
	2006	**2005**	**Amount**	**%**
	(Unaudited)			
(in millions)				
Doubtful accounts	Php49	Php35	Php14	40
Write-down (reversal of write-down) of inventories to net realizable value	109	(89)	198	222
	Php158	(Php54)	Php212	393

Amortization of intangible assets decreased by Php8 million, or 11%, to Php63 million mainly due to a reduction in the amount of intangible assets booked by Smart from the purchase of Meridian following the finalization by an independent appraiser of the valuation work on the intangible assets in September 2005.

Financing costs in the first quarter of 2006 amounted to a negative Php360 million compared to a negative Php507 million in the same period in 2005, due to the combined results of:
(1) lower foreign exchange gains recognized in the first quarter of 2006 compared to the same period in 2005; (2) lower accretion on financial liabilities with the conversion of holders of convertible preferred shares to common shares; and (3) lower loss on derivatives recorded in the first quarter of 2006 as compared to the same period in 2005. The breakdown of our financing costs for our wireless business for the three months ended March 31, 2006 and 2005 is as follows:

	Three Months Ended March 31,			
			Change	
	2006	**2005**	**Amount**	**%**
		(Unaudited)		
(in millions)				
Accretion on financial liabilities net	Php545	Php707	(Php162)	(23)
Interest on loans and related items	405	456	(51)	(11)
Dividends on preferred stock subject to mandatory redemption	49	67	(18)	(27)
Financing charges	25	47	(22)	(47)
Loss on derivative transactions net	1	127	(126)	(99)
Capitalized interest	(61)	(3)	(58)	1,933
Interest income	(309)	(293)	(16)	5
Foreign exchange gains net	(1,015)	(1,615)	600	(37)
	(Php360)	(Php507)	Php147	29

Other expenses increased by Php16 million, or 7%, to Php231 million due to higher various business and operational-related expenses such as office supplies expense.

Provision for Income Tax

Provision for income tax decreased by Php409 million, or 15%, to Php2,236 million in the first quarter of 2006 from Php2,645 million in the same period in 2005. In the first quarter of 2006, the effective tax rate for our wireless business was 22% compared to 28% in the same period in 2005 due to differences in the net movement of deferred tax assets.

Net Income

Our wireless business segment recorded a net income of Php7,894 million in the first quarter of 2006, an increase of Php957 million, or 14%, over Php6,937 million registered in the same period in 2005, primarily due to the growth in our cellular service revenues and lower provision for income tax, which partly offset an increase in operating expenses.

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 quarter of 2006 totaled Php12,269 million, an increase of Php412 million, or 3%, from Php11,857 million in the same period in 2005.

The following table summarizes revenues from our fixed line business for the three months ended March 31, 2006 and 2005 by service segment:

	Three Months Ended March 31,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
			(Unaudited)			
(in millions)						
Fixed line services:						
Service Revenues						
Local exchange	Php4,348	35	Php4,664	39	(Php316)	(7)
International long distance	2,559	21	3,010	26	(451)	(15)
National long distance	1,810	15	1,788	15	22	1
Data and other network	3,068	25	2,058	17	1,010	49
Miscellaneous	364	3	306	3	58	19
	12,149	99	11,826	100	323	3
Non-Service Revenues	13				13	100
Other Income	107	1	31		76	245
Total Fixed Line Revenues and Other Income	Php12,269	100	Php11,857	100	Php412	3

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;
- 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 three months ended March 31, 2006 and 2005:

	Three Months Ended March 31,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
	(Unaudited)			
Total local exchange service revenues (in millions)	Php4,348	Php4,664	(Php316)	(7)
Number of fixed lines in service	2,085,904	2,149,489	(63,585)	(3)
Number of fixed line employees	9,160	9,620	(460)	(5)
Number of fixed lines in service per employee	228	223	5	2

Revenues from our local exchange service decreased by Php316 million, or 7%, to Php4,348 million in the first quarter of 2006 from Php4,664 million in the same period in 2005. The decrease was primarily due to a 3% decline in the 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 36% in the first quarter of 2006 compared to 39% in the same period in 2005.

Fixed line net reduction in the first quarter of 2006 was 27,895 compared to a net reduction of 2,538 in the same period in 2005. In the first quarter of 2006, prepaid and postpaid fixed lines in service declined by 20,980 and 6,915, respectively. As at March 31, 2006, postpaid and prepaid fixed line subscribers totaled 1,783,982 and 301,922, which accounted for approximately 86% and 14%, 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 quarter of 2006 and 2005, we implemented three downward adjustments in our monthly local service rates. The average Philippine peso to U.S. dollar rate factored in our monthly local service rates in the first quarter of 2006 was Php51.847 to US$1.00, compared to an average of Php54.982 to US$1.00 in the same period in 2005. This change in the average peso-to-dollar rate translated to a peso appreciation of 5%, which resulted in an average net decrease of approximately 5% in our monthly local service rates in the first quarter of 2006.

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 three months ended March 31, 2006 and 2005:

	Three Months Ended March 31,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
	(Unaudited)			
Total international long distance service revenues (in millions)	Php2,559	Php3,010	(Php451)	(15)
Inbound	2,147	2,543	(396)	(16)
Outbound	412	467	(55)	(12)
International call volumes (in million minutes, except call ratio)	514	585	(71)	(12)
Inbound	468	549	(81)	(15)
Outbound	46	36	10	28
Inbound-outbound call ratio	10.2:1	15.3:1		

Our total international long distance service revenues decreased by Php451 million, or 15%, to Php2,559 million in the first quarter of 2006 from Php3,010 million in the same period in 2005 due to the peso appreciation coupled with 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 21% in the first quarter of 2006 from 26% in the same period in 2005.

Our revenues from inbound international long distance service decreased by Php396 million, or 16%, due to a decrease in inbound traffic volume by 81 million minutes to 468 million minutes in the first quarter of 2006. In addition, the appreciation of the peso to the U.S. dollar with average rates of Php51.847 during the first quarter of 2006 and Php54.982 during the same period in 2005 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.

Our revenues from outbound international long distance service decreased by Php55 million, or 12%, in the first quarter of 2006, primarily due to a decline in average revenue per minute as a result of lower average collection rate with the introduction of low-rate services such as *PLDT ID-DSL* and the modified *Budget Card*, and the peso appreciation in the first quarter of 2006.

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. Beginning March 4, 2006, *Budget Card* has been further modified to Php3, Php5 and Php8 per minute calls depending on the destination and now has 100 overseas destinations, including Saudi Arabia and other Middle East countries. *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;

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

- 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 national long distance service revenues and call volumes for the three months ended March 31, 2006 and 2005:

	Three Months Ended March 31,

	2006	2005	Increase Amount	%
		(Unaudited)		
Total national long distance service revenues (in millions)	Php1,810	Php1,788	Php22	1
National long distance call volumes (in million minutes)	545	449	96	21

Our national long distance service revenues increased by Php22 million, or 1%, to Php1,810 million in the first quarter of 2006 from Php1,788 million in the same period in 2005 due to an increase in call volumes partially offset by a lower average revenue per minute due to our Php10 per call promotion. Accordingly, the percentage contribution of national long distance revenues to our fixed line service revenues was 15% in the first quarter of 2006 and 2005.

On February 14, 2005, we launched a Php10 per call promotion to PLDT landline subscribers nationwide and for calls to PLDT, to 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 or to all Smart and *Talk 'N Text* subscribers were 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 were charged based on the regular rate per minute. On August 12, 2005, PLDT ceased offering the Php10 per call promotion to calls terminating to Smart and *Talk N Text* subscribers.

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

In January 2006, PLDT launched the *10-10-10* promotion. This promotion offers a flat rate of Php10 for unlimited calls terminating PLDT to PLDT and Smart and *Talk N Text* subscribers for a Php50 monthly service fee.

PLDT capped the Php10 per call service to Smart and *Talk N Text* subscribers to those who registered on or before February 24, 2006. PLDT fixed line subscribers, however, can still register and avail of the unlimited Php10 per call service for national long distance calls within the PLDT network.

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 salient information about our data and other network service revenues for the three months ended March 31, 2006 and 2005:

	Three Months Ended March 31,			
			Increase	
	2006	**2005**	**Amount**	**%**
(in millions)		(Unaudited)		
Data and Other Network Service Revenues	Php3,068	Php2,058	Php1,010	49
Number of PLDT DSL broadband subscribers	101,195	56,960	44,235	78
Number of PLDT Vibe narrowband subscribers	420,154	330,486	89,668	27

Our data and other network services in the first quarter of 2006 posted revenues of Php3,068 million, an increase of Php1,010 million, or 49%, from Php2,058 million in the same period in 2005, primarily due to increases in leased lines, IP-based and switched-based data services, particularly Diginet, *PLDT DSL* and *PLDT Vibe* services, respectively. The revenue contribution of this service segment to our fixed line service revenues increased to 25% in the first quarter of 2006 from 17% in the same period in 2005.

Internet-based products are bannered by *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,* or 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 to enterprises and value-added service providers.

PLDT DSL, which contributed revenues of Php733 million during the first quarter of 2006 increased by Php239 million, or 48%, from Php494 million in the same period in 2005. *PLDT DSL* has reached 101,195 subscribers as at March 31, 2006 compared with 56,960 subscribers in the same period in 2005. PLDT offers a number of *DSL* packages with speeds and monthly fees varying from 256 kbps at Php999 per month to up to 1 Mbps at Php3,000 per month.

PLDT Vibe revenues increased by Php35 million, or 58%, to Php95 million in the first quarter of 2006 from Php60 million in the same period in 2005. As at March 31, 2006, the number of PLDT s fixed line subscribers for *PLDT Vibe* stood at 420,154, of which 154,934 were exclusive postpaid users, 234,315 were exclusive prepaid users, and 30,905 were both postpaid and prepaid users. As at March 31, 2005, *PLDT Vibe* subscribers totaled 330,486, of which 134,389 were exclusive postpaid users, 174,817 were exclusive prepaid users, and 21,280 were both postpaid and prepaid users.

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 bandwidth offerings Fibernet, Arcstar, Acacia, I-Gate, Diginet, BRAINS, among others continues to provide us with a stable revenue source. Through Diginet, we provide Smart s increasing fiber optic and leased line data requirements, which are included under our national data services. Diginet contributed Php1,406 million in our data revenues in the first quarter of 2006, increasing by Php720 million, or 105%, from Php686 million in the same period in 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. *PLDT WeRoam* provides workers and remote offices, of large, medium and small businesses, with continuous wireless data connectivity, wherever the users may be, to their corporate headquarters Intranet and/or the global Internet. 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 7,500 contracted customers as at March 31, 2006.

In June 2005, the *PLDT Innolab* in Manila, was further expanded in partnership with the leading technology companies in the country. The PLDT Innolab is a first-of-its-kind innovation & testing center for the Philippine telecommunications industry. With the expanded Innovation Laboratory, more clients as well as people from the academe and government can now be accommodated and can experience more live industry solutions.

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Also in June 2005, *F.A.S.Track*, an application-based solution that tracks the whereabouts of a company s field assets through GPS and GSM technology was introduced. *F.A.S.Track* allows near real-time and simultaneous monitoring of fleet vehicles and field personnel virtually connecting mobile company assets in the field to the main office through the use of digital maps and statistical data.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising and facilities rental. In the first quarter of 2006, these revenues increased by Php58 million, or 19%, to Php364 million from Php306 million in the same period in 2005. 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 was 3% in the first quarter of 2006 and 2005.

Non-service Revenues

Non-service revenues of Php13 million recognized under our fixed line business represent proceeds of computer sales in the first quarter of 2006 in relation to our DSL promo.

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 the first quarter of 2006, our fixed line business segment registered an increase in other income of Php76 million, or 245%, to Php107 million in the first quarter of 2006 from Php31 million in the same period in 2005, primarily due to higher service and facility fees.

Expenses

Expenses related to our fixed line business in the first quarter of 2006 totaled Php11,136 million, an increase of Php2,381 million, or 27%, compared to Php8,755 million in the same period in 2005. The increase was primarily due to higher depreciation and amortization, financing costs, and compensation and benefits expenses partially offset by lower provisions and insurance and security services.

The following table shows the breakdown of our total fixed line-related expenses for the three months ended March 31, 2006 and 2005 and the percentage of each expense item to the total:

	Three Months ended March 31,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
			(Unaudited)			
(in millions)						
Fixed line services:						
Depreciation and amortization	Php4,971	45	Php3,001	34	Php1,970	66
Compensation and benefits(1)	2,216	20	1,934	22	282	15
Financing costs	1,408	13	773	9	635	82
Maintenance	808	7	810	9	(2)	
Rent	427	4	391	5	36	9
Selling and promotions	386	3	355	4	31	9
Professional and other contracted services	214	2	213	2	1	
Taxes and licenses	205	2	188	2	17	9
Insurance and security services	133	1	163	2	(30)	(18)
Communication, training and travel	124	1	94	1	30	32

Provisions	70	1	653	8	(583)	(89)
Cost of sales	32				32	100
Other expenses	142	1	180	2	(38)	(21)
Total	Php11,136	100	Php8,755	100	Php2,381	27

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

Depreciation and amortization charges increased by Php1,970 million, or 66%, to Php4,971 million mainly due to the effect of our change in estimated useful lives of certain property and equipment in line with our upgrade to the next-generation network which resulted in increased depreciation charges of Php1,941 million for 2006, and higher depreciation of our regular asset base from additional completed projects. Please see *Note 8 Property, Plant and Equipment* to the accompanying unaudited consolidated financial statements for further discussion.

Compensation and benefits expenses increased by Php282 million, or 15%, to Php2,216 million primarily due to the effect of the collective bargaining agreement-related increases in salaries and benefits and an increase in incentive plan-related accruals, partially offset by a reduction in headcount due to PLDT s MRP.

Financing costs increased by Php635 million, or 82%, to Php1,408 million due to: (1) lower foreign exchange gains recorded in the first quarter of 2006 compared to the same period in 2005; (2) loss on derivatives recorded in the first quarter of 2006 compared to a gain in the same period in 2005; and (3) lower interest on loans and related items owing to lower debt balances in the first quarter of 2006 compared to the same period in 2005. The breakdown of financing costs for our fixed line business for the three months ended March 31, 2006 and 2005 is as follows:

	Three Months ended March 31,			
			Change	
	2006	**2005**	**Amount**	**%**
		(Unaudited)		
(in millions)				
Interest on loans and related items	Php1,718	Php2,470	(Php752)	(30)
Hedge costs	341	241	100	41
Accretion on financial liabilities net	69	89	(20)	(22)
Loss (gain) on derivative transactions net	21	(217)	238	110
Financing charges	11	(19)	30	158
Capitalized interest	(68)	(94)	26	(28)
Interest income	(108)	(73)	(35)	48
Foreign exchange gains net	(576)	(1,624)	1,048	(65)
	Php1,408	Php773	Php635	82

Maintenance expenses decreased by Php2 million to Php808 million primarily due to lower maintenance costs for foreign cable and wire facilities as more operating and maintenance-related restorations were incurred in the first quarter of 2006 as compared to the same period in 2005.

Rent expenses increased by Php36 million, or 9%, to Php427 million due to an increase in international leased circuits and rental charges occupied by various equipments, partially offset by lower rentals for bundled sales/value added service units.

Selling and promotion expenses increased by Php31 million, or 9%, to Php386 million, primarily as a result of an increase in PLDT s promotional activities in relation to various products and services, partially offset by lower commissions paid in the first quarter of 2006.

Professional and other contracted services increased by Php1 million to Php214 million primarily due to an increase in facility management fees and collection agency fees, partially offset by lower advisory and legal fees in the first quarter of 2006 for various services.

Taxes and licenses increased by Php17 million, or 9%, to Php205 million mainly on account of higher NTC supervision and license fees, fringe benefit taxes in respect of our stock option plan and other business-related taxes paid in the first quarter of 2006 as compared to the same period in 2005.

Insurance and security services decreased by Php30 million, or 18%, to Php133 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 for contracted security guards.

Communication, training and travel expenses increased by Php30 million, or 32%, to Php124 million due to an increase in mailing, courier and delivery services, as well as an increase in local travel and training in the first quarter of 2006 as compared to the same period in 2005.

Provisions decreased by Php583 million, or 89%, to Php70 million, primarily on account of a lower provision by PLDT for anticipated uncollectible accounts from various specifically identified domestic telecommunications carriers which were provided for in 2004 complemented by a decrease in our write-down of inventories to net realizable value. The breakdown of provisions for our fixed line business for the three months ended March 31, 2006 and 2005 is as follows:

	Three Months Ended March 31,			
			Change	
	2006	2005	Amount	%
		(Unaudited)		
(in millions)				
Doubtful accounts	Php155	Php703	(Php548)	(78)
Onerous contracts and assessments	(85)	(50)	(35)	70
	Php70	Php653	(Php583)	(89)

Cost of sales of computers amounting to Php32 million were recognized in the first quarter of 2006 in relation to our DSL promo. No similar charges were incurred in the same period in 2005.

Other expenses decreased by Php38 million, or 21%, to Php142 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 amounted to Php291 million in the first quarter of 2006 compared to Php830 million in the same period in 2005, a decrease of Php539 million, or 65%, primarily due to lower income subject to tax.

Net Income

In the first quarter of 2006, our fixed line business segment contributed a net income of Php842 million, a decrease of Php1,430 million, or 63%, as compared to Php2,272 million in the same period in 2005 mainly as a result of a 27% increase in fixed line-related expenses, particularly depreciation and amortization which more than offset the 3% increase in fixed line-related revenues.

Information and Communications Technology

Revenues and Other Income

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

In the first quarter of 2006, our information and communications technology business generated revenues of Php872 million, an increase of Php121 million, or 16%, from Php751 million in the same period in 2005. 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 three months ended March 31, 2006 and 2005 by service segment:

	Three Months Ended March 31,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
			(Unaudited)			
(in millions)						
Service Revenues						
Call center	Php563	65	Php408	54	Php155	38
Internet and gaming	142	16	146	20	(4)	(3)
*Vitro*TM data center	83	10	81	11	2	2
Others	25	3	17	2	8	47
	813	94	652	87	161	25
Non-service Revenues						
Point-of-Product Sales	53	6	66	9	(13)	(20)
Other Income	4		31	4	(27)	(87)
Equity share in net income of associates	2		2			
Total ICT Revenues and Other Income	Php872	100	Php751	100	Php121	16

Service Revenues

Service revenues generated by our information and communications technology segment amounted to Php813 million in the first quarter of 2006, an increase of Php161 million, or 25%, as compared to Php652 million in the same period in 2005 primarily as a result of the continued growth of our call center business.

Call Center

We are focused on developing our call center business which capitalizes on the availability of English-speaking college graduates in the Philippines with a strong customer service orientation. ePLDT now uses one umbrella brand name, *ePLDT Ventus*, for all of its call center businesses, including Vocativ and Parlance. Vocativ provides customer and technical support to its clients in the Philippines, U.S. and U.K. while Parlance provides the exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the U.S. In aggregate, we own and operate 3,690 seats with 3,842 customer service representatives, or CSRs, as of March 31, 2006 compared to 2,174 seats with 2,378 CSRs as of March 31, 2005. In 2005, ePLDT had four call centers in Metro Manila and one in Iloilo; two more will open in 2006.

Call center revenues consist of:

- inbound calls for customer care, product inquiries, sales and technical support based on active minutes, billable hours and full-time equivalents;

- outbound calls for sales and collections based on active minutes, billable hours and full-time equivalents; and

- service income for e-mail handling, web chat, web co-browsing, data entry and business process outsourcing based on transaction volume.

Revenues related to our call center business in the first quarter of 2006 increased by Php155 million, or 38%, to Php563 million from Php408 million in the same period in 2005, primarily due to the combined effects of the following:

- Vocativ s upward price adjustment for calls and an increase in programs being handled;

- an upward price adjustment by Parlance for its inbound and outbound projects, coupled with an increase in the number of registered minutes for inbound projects and hours for outbound projects;

- expansion of existing Parlance and Vocativ facilities by 906 and 211 seats, respectively, from 1,234 and 999 in the first quarter of 2005 to 1,400 and 1,210 in the same period in 2006;

- commencement of Ventus operations in Iloilo in March 2005; and

• continuous ramp up of CSRs by 1,464, or 62%, from a total of 2,378 in the first quarter of 2005 to 3,842 in the same period in 2006.

Call center revenues accounted for 69% and 63% of total information and communications technology service revenues in the first quarter of 2006 and 2005, respectively.

Internet and gaming

ePLDT has also invested in a number of other e-commerce and internet-related businesses, which include:

• a 99.6% interest in Infocom, one of the country s leading internet service providers. Infocom offers consumer prepaid and postpaid internet access, corporate leased lines, dedicated dial-up, multi-user dial-up, broadband internet access through DSL, web consulting and development, hosting and other value-added services;

• a 75% interest in Digital Paradise, an internet café business which assumed the assets of Netopia Computer Technologies, Inc., and the brand *Netopia*. *Netopia* is now one of the largest and fastest growing internet café chains in the country with 186 branches and over 8,500 work stations. Digital Paradise offers high-speed internet services, including internet advertising, gaming and printing;

• a 60% interest in netGames, a publisher for Massively Multi-player Online Game in the Philippines. netGames is the Philippine licensee of Khan Online, Pangya and Flyff, and the owner of Juanworld, a community gaming portal. netGames commenced full commercial operations in February 2005;

• a 60% interest in Level Up!, a leading publisher of online games in the Philppines with about 80% of the online gaming market;

• 51% interest in Airborne Access, the country s leading operator of WiFi hotspots, which provides wireless internet access in hotspots equipped with Airborne Access WiFi access points; and

• a 51% interest in Digital Paradise Thailand, an affiliate of Digital Paradise, offering similar products and services. Digital Paradise Thailand currently has four branches in addition to its head office all situated in Bangkok, Thailand.

Internet Service revenues consist of:

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

- monthly service fees from postpaid corporate and consumer subscribers, including (1) charges for internet usage in excess of allocated free plan internet hours; (2) one-time installation and activation fees; and (3) fees for value added services such as additional mailbox accounts;

- monthly service fees on value added services, including e-mail and web hosting services;

- one-time fees generated from resellership of internet-related solutions such as security solutions and domain registration;

- sales revenues from retailing of prepaid cards for cellular, landline and internet access;

- franchise fees for *Netopia* Internet cafés, including a one-time subscription fee and monthly recurring franchise fees based on certain conditions on the franchise agreement; and

- share in revenues of text, voice and internet messages for cellular, landline and internet-based content and applications.

Revenues from our internet business in the first quarter of 2006 decreased by Php4 million, or 3%, to Php142 million from Php146 million in the same period in 2005, primarily due to a decrease in Infocom s revenues in 2005, which was partially offset by the consolidation of Digital Paradise in June 2004. Our internet business revenues accounted for 17% and 22% of service revenues from information and communications technology business in the first quarter of 2006 and 2005, respectively.

*Vitro*TM data center

ePLDT operates an internet data center under the brand name *Vitro*TM. Granted pioneer status as an internet data center by the Board of Investments, *Vitro*TM provides co-location services, server hosting, hardware and software maintenance services, website development and maintenance services, webcasting and webhosting, shared applications, data disaster recovery and business continuity services, intrusion detection, and security services such as firewall and managed firewall.