PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 6-K
March 06, 2007

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 March 2007

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-_____)

SIGNATURES

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

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

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

Date: March 6, 2007

EXHIBITS

Exhibit 1.1

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Year Ended December 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 audited 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 audited 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 audited 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 audited consolidated financial statements were made based on the exchange rate of Php49.045 to US$1.00, the volume weighted average exchange rate at December 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

	December 31,		**Increase (Decrease)**	
	2006	**2005**	**Amount**	**%**
(in millions, except for operational data, exchange rates and earnings per common share)				
Consolidated Balance Sheets				
Total assets	Php244,883	Php250,197	(Php5,314)	(2)
Property, plant and equipment	164,693	176,974	(12,281)	(7)
Cash and cash equivalents and short-term investments	26,080	32,809	(6,729)	(21)
Total equity	104,313	74,369	29,944	40
Notes payable and long-term debt	80,159	103,544	(23,385)	(23)
Net debt(1) to equity ratio	0.52x	0.95x		

	Years Ended December 31,		**Increase (Decrease)**	
	2006	**2005**	**Amount**	**%**
Consolidated Statements of Income				
Revenues and other income	Php133,843	Php126,044	Php7,799	6
Expenses	91,654	87,429	4,225	5
Income before income tax	42,189	38,615	3,574	9
Net income attributable to equity holders of PLDT	35,116	34,112	1,004	3
Net income	35,320	34,479	841	2
Net income margin	26%	27%		
Earnings per common share basic	187.91	189.96	(2.05)	(1)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	70,186	76,213	(6,027)	(8)
Net cash used in investing activities	36,126	11,694	24,432	209
Capital expenditures	*21,111*	*14,990*	*6,121*	*41*
Net cash used in financing activities	45,722	60,794	(15,072)	(25)
Operational Data				
Number of cellular subscribers	24,175,384	20,408,621	3,766,763	18
Number of fixed line subscribers(2)	1,776,647	1,842,507	(65,860)	(4)
Number of broadband subscribers	264,649	117,586	147,063	125

Fixed Line	*133,159*	*88,811*	*44,348*	*50*
Wireless	*131,490*	*28,775*	*102,715*	*357*
Number of employees	28,219	18,926	9,293	49
Fixed Line	*8,711*	*9,197*	*(486)*	*(5)*
Wireless	*5,358*	*5,137*	*221*	*4*
Information and Communications Technology	*14,150*	*4,592*	*9,558*	*208*

Exchange Rates	**Php per US$**
December 31, 2006	Php49.045
December 31, 2005	53.062
December 31, 2004	56.341

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

(2) Previously set forth as number of fixed lines in service. The 2005 figures were restated to reflect the effect of the change in parameters used to align with the PLDT Group s policy on subscriber count with the planned use of an integrated billing system for our subscribers.

Overview

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

- *Wireless* wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Pilipino Telephone Corporation, or Piltel, our cellular service providers; Smart Broadband, Inc., or Smart Broadband (formerly known as 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, Bonifacio Communications Corporation and PLDT Global Corporation, or PLDT Global, which together account for approximately 4% of our consolidated fixed line subscribers; 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 *ePLDT Ventus*, including Parlance Systems, Inc., or Parlance, and Vocativ Systems, Inc., or Vocativ; business process outsourcing, or BPO, provided by SPi Technologies, Inc., or SPi (consolidated on July 11, 2006); 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, 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 audited consolidated financial statements.

We registered total revenues and other income of Php133,843 million in 2006, an increase of Php7,799 million, or 6%, as compared to Php126,044 million in 2005, primarily due to an increase in our service revenues and other income by Php4,078 million and Php4,066 million, respectively. Other income in 2006 included a net reversal of a provision for onerous contract amounting to Php3,529 million as a result of an amendment to the Air Time Purchase Agreement. Please see
Note 23 Provisions and Contingencies to the accompanying audited consolidated financial statements for further discussion.

Expenses increased by Php4,225 million, or 5%, to Php91,654 million in 2006 from Php87,429 million in 2005, largely resulting from increases in compensation and benefits, asset impairment, depreciation and amortization, and professional and other contracted services, partly offset by lower provisions, cost of sales and taxes and licenses.

Net income attributable to equity holders of PLDT increased by Php1,004 million, or 3%, to Php35,116 million in 2006 from Php34,112 million in 2005. However, basic earnings per common share decreased to Php187.91 in 2006 from Php189.96 in 2005 due to an increase in the weighted average number of common shares outstanding from 172.1 million in 2005 to 184.5 million in 2006.

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 years ended December 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 year ended December 31, 2006					

Revenues and other income	Php81,546		Php54,219		Php7,220		(Php9,142)	Php133,843	
Service	78,383		49,134		6,543		(8,920)	125,140	
Non-service	2,457		79		553		(122)	2,967	
Equity share in net income of associates									
Other income	706		5,006		124		(100)	5,736	
Expenses	44,692		48,535		7,569		(9,142)	91,654	
Income (loss) before income tax	36,854		5,684		(349)			42,189	
Net income (loss) for the period	30,376		5,255		(311)			35,320	
Net income (loss) attributable to equity holders of PLDT	30,096		5,253		(233)			35,116	
For the year ended December 31, 2005									
Revenues and other income	79,158		49,990		3,438		(6,542)	126,044	
Service	74,677		49,663		2,953		(6,231)	121,062	
Non-service	3,036		41		351		(116)	3,312	
Equity share in net income of associates					7			7	
Other income	1,445		286		127		(195)	1,663	
Expenses	40,694		49,897		3,380		(6,542)	87,429	
Income (loss) before income tax	38,464		93		58			38,615	
Net income (loss) for the period	33,664		769		46			34,479	
Net income (loss) attributable to equity holders of PLDT	33,222		768		122			34,112	
Increase (Decrease)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**Amount**	**%**
Revenues and other income	Php2,388	3	Php4,229	8	Php3,782	110	(Php2,600)	Php7,799	6
Service	3,706	5	(529)	(1)	3,590	122	(2,689)	4,078	3
Non-service	(579)	(19)	38	93	202	58	(6)	(345)	(10)
Equity share in net income of associates					(7)	(100)		(7)	(100)
Other income	(739)	(51)	4,720	1,650	(3)	(2)	95	4,073	245
Expenses	3,998	10	(1,362)	(3)	4,189	124	(2,600)	4,225	5
Income (loss) before income tax	(1,610)	(4)	5,591	6,012	(407)	(702)		3,574	9
Net income (loss) for the period	(3,288)	(10)	4,486	583	(357)	(776)		841	2
Net income (loss) attributable to equity holders of PLDT	(3,126)	(9)	4,485	584	(355)	(291)		1,004	3

Wireless

Revenues and Other Income

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

The following table summarizes our service and non-service revenues and other income from our wireless business for the years ended December 31, 2006 and 2005 by service segment:

	Years Ended December 31,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
(in millions)						
Wireless services:						
Service Revenues						
Cellular	Php75,605	93	Php72,409	91	Php3,196	4
Wireless broadband, satellite, VSAT and others	2,778	3	2,268	3	510	22
	78,383	96	74,677	94	3,706	5
Non-service Revenues						
Sale of cellular handsets and SIM-packs	2,457	3	3,036	4	(579)	(19)
Other Income	706	1	1,445	2	(739)	(51)
Total Wireless Revenues and Other Income	Php81,546	100	Php79,158	100	Php2,388	3

Service Revenues

Our wireless service revenues increased by Php3,706 million, or 5%, to Php78,383 million in 2006 compared to Php74,677 million in the same period in 2005, mainly as a result of the growth of Smart s and Piltel s subscriber base, an increase in international inbound revenues and a reduction in domestic interconnection costs due to a shift from off-network to on-network voice and data usage. As a percentage of our total wireless revenues and other income, service revenues contributed 96% and 94% in 2006 and 2005, respectively.

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 content costs and 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 2006 amounted to Php75,605 million, an increase of Php3,196 million, or 4%, from Php72,409 million in 2005. Cellular service revenues accounted for 96% and 97% of our wireless service revenues in 2006 and 2005, respectively.

As at December 31 , 2006, Smart and Piltel cellular subscribers totaled 24,175,384, an increase of 3,766,763, or 18%, over their combined cellular subscriber base of 20,408,621 as at December 31, 2005. Prepaid subscribers accounted for 99% of our total subscriber base as at December 31, 2006 and 2005. Prepaid and postpaid subscribers totaled 23,856,821 and 318,563 as at December 31, 2006, reflecting net subscriber activations of 3,728,278 and 38,485, respectively, in 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.

Smart continues to offer products and services that provide value to its subscribers. In 2005, Smart launched a series of promotions to test the market demand for fixed rate or bucket plans for voice and text. Under a service branded as *Smart 258*, subscribers had the option to register for unlimited on-network voice calling or text messaging. *Smart 258* has since been modified a number of times, with variations involving changes in load denominations and periods of network availability. The promotion offered unlimited on-network texting, carrying denominations of Php15, Php30 and Php60 with corresponding expiration periods of one, two and four days. Bucket pricing promotions have now become a key driver for subscriber activations and usage stimulation.

In 2006, Smart has focused on segmenting its market by offering sector-specific, value-driven packages such as *All Text* a new variety of top-up service providing a fixed number of messages with prescribed validity periods. Current offerings include *All Text 10 Bonus*, with a suggested retail price of Php12, which includes 15 messages without expiration and *All Text 20*, which includes 100 on-network messages for Php20, with a validity period of one day. *All Text* also has a voice counterpart in *All Talk 20* which is a call package allowing three calls of up to three minutes each for local on-network calls, valid for one day. Other voice offerings include: (a) the *Flat Rate Call* promotion, which allows a subscriber to make an on-network call of up to three minutes for Php10 or extend the call to five minutes for Php15; and (b) *Tipid Talk*, a call package which allows a subscriber to make four calls of up to 30 seconds each for local on-network calls, valid for one day for Php10 and another variant allowing four calls of up to 15 seconds each for local on-network calls, valid for one day for Php5.50. *All Text 20*, *All Text 10 Bonus, All Talk 20* and *Tipid Talk* are now permanent offerings, while the *Flat Rate Call* promotion is valid until March 3, 2007. On January 18, 2007, Smart introduced *LAHATxt*, a top-up service which offers a bundle of text messages available to all networks. *LAHATxt 35* is available to all Smart prepaid subscribers and provides for 100 text messages to all networks for Php35 with a one day validity period. On the other hand, *Talk N Text* subscribers have *LAHATxt 20* which allows a subscriber to make 50 text messages to all networks for Php20, also valid for one day.

Smart likewise has in place various promotions to stimulate international usage. In June 2006, *Smart IDD Libre Text Abroad* was launched wherein subscribers earned one free international text for every minute of IDD calling. In October 2006, this was replaced by *International Budget Text* packages. These packages, which have a limited duration and a varying number of allowable messages, enable subscribers to send international text to pre-registered recipients of the subscriber s choice on supported overseas carriers.

Smart expanded its roster of services with the commercial launch of its 3G services in May 2006. These services include video calling, video streaming, high-speed Internet browsing and downloading of special 3G content, offered at rates similar to those of 2G services.

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

	Years Ended December 31,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
(in millions)				
Cellular service revenues	Php75,605	Php72,409	Php3,196	4
By component	*73,893*	*70,507*	*3,386*	*5*
Voice	35,221	35,444	(223)	(1)
Data	38,672	35,063	3,609	10
By service type	*73,893*	*70,507*	*3,386*	*5*
Prepaid	68,846	66,023	2,823	4

Postpaid	5,047	4,484	563	13
Others(1)	*1,712*	*1,902*	*(190)*	*(10)*

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

	December 31,			
			Increase	
	2006	**2005**	**Amount**	**%**
Cellular subscriber base	24,175,384	20,408,621	3,766,763	18
Prepaid	23,856,821	20,128,543	3,728,278	19
Smart	16,882,442	15,144,118	1,738,324	11
Piltel	6,974,379	4,984,425	1,989,954	40
Postpaid	318,563	280,078	38,485	14

	Years Ended December 31,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
Systemwide traffic volumes (in millions)				
Calls (in minutes)	5,667	5,467	200	4
Domestic	3,437	3,741	(304)	(8)
International	2,230	1,726	504	29
Inbound	2,065	1,557	508	33
Outbound	165	169	(4)	(2)
Text messages	238,362	95,959	142,403	148
Standard	32,052	40,781	(8,729)	(21)
Bucket-Priced	203,669	52,373	151,296	289
Value-Added Services	2,641	2,805	(164)	(6)

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 Php223 million, or 1%, to Php35,221 in 2006 from Php35,444 million in 2005 primarily due to a decrease in domestic voice revenues partially offset by an increase in international inbound revenue and a decrease in interconnection expense. The decline in domestic voice revenue may be attributed to increased competition in voice promotions as well as the re-channeling of calls to international inbound as a result of continued efforts to curb by-pass activities. The decrease in interconnection expense resulted from increased on-net voice usage brought about by bucket-priced promotions designed to encourage on-net voice services.

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 Php3,609 million, or 10%, to Php38,672 million in 2006 from Php35,063 million in 2005. Cellular data services accounted for 51% of cellular service revenues in 2006 as compared to 48% in 2005.

The following table shows the breakdown of cellular data revenues for the years ended December 31, 2006 and 2005:

	Years Ended December 31,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
(in millions)				
Text messaging				
Domestic	Php32,763	Php29,110	Php3,653	13
Standard	21,709	25,580	(3,871)	(15)
Bucket-Priced	11,054	3,530	7,524	213
International	1,640	1,698	(58)	(3)
	34,403	30,808	3,595	12
Value-added services				
Non-Zed(1)	2,474	2,290	184	8
*Smart Zed*TM	335	523	(188)	(36)
Smart Money	68	84	(16)	(19)
Mobile Banking	5	5		
Roaming SMS, Pasaload, MMS and WAP	1,387	1,352	35	3
	4,269	4,254	15	
Total	Php38,672	Php35,062	Php3,610	10

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

Text messaging-related services contributed revenues of Php34,403 million in 2006, an increase of Php3,595 million, or 12%, compared to Php30,808 million in 2005, and accounted for 89% and 88% of the total cellular data revenues in 2006 and 2005, respectively. The increase in revenues from text messaging-related services resulted mainly from the *Smart 258 Unlimited Text* promotion and its variant bucket-priced text promotional offerings. Text messaging revenues from the various bucket plans totaled Php11,054 million. Value-added services, which contributed revenues of Php4,269 million in 2006, increased by Php15 million from Php4,254 million in 2005, primarily due to higher usage of *Non-Zed* and roaming SMS services, partially offset by decreased usage of *Smart Zed* and *Smart Money* services in 2006 as compared to 2005. The decline in *Smart Zed* usage was primarily due to increased competition from other content providers while the decline in *Smart Money* revenue was on account of reduced usage of *Smart Money* by dealers as a settlement tool for load transactions.

Standard text messages totaled 32,052 million in 2006, a decrease of 8,729 million, or 21%, from 40,781 million in 2005 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in 2006 totaled 203,669 million, an increase of 151,296 million, or 289%, as compared to 52,373 million in 2005.

Subscriber Base, ARPU and Churn Rates

Prepaid subscribers accounted for approximately 99% of our 24,175,384 subscribers as at December 31, 2006, while postpaid subscribers accounted for the remaining 1%. The cellular prepaid subscriber base grew by 19% to 23,856,821 as at December 31, 2006 from 20,128,543 as at December 31, 2005, whereas the postpaid subscriber base increased by 14% to 318,563 as at December 31, 2006 from 280,078 as at December 31, 2005.

Our net subscriber activations for the years ended December 31 , 2006 and 2005 were as follows:

	Years Ended December 31,			
			Increase	
	2006	**2005**	**Amount**	**%**
Prepaid	3,728,278	1,194,805	2,533,473	212
Smart	1,738,324	822,830	915,494	111
Piltel	1,989,954	371,975	1,617,979	435
Postpaid	38,485	5,584	32,901	589
Total	3,766,763	1,200,389	2,566,374	214

Revenues attributable to our cellular prepaid service amounted to Php68,846 million in 2006, a 4% increase over the Php66,023 million earned in 2005. Prepaid service revenues in 2006 and 2005 accounted for 93% and 94%, respectively, of voice and data revenues. Revenues attributable to Smart s postpaid service amounted to Php5,047 million in 2006, a 13% increase over the Php4,484 million earned in 2005, and accounted for 7% and 6% of voice and data revenues in 2006 and 2005, respectively.

The following table summarizes our cellular ARPUs for the years ended December 31, 2006 and 2005:

	Years Ended December 31,							
	Gross		Increase (Decrease)		Net		Increase (Decrease)	
	2006	**2005**	**Amount**	**%**	**2006**	**2005**	**Amount**	**%**
Prepaid								
Smart	Php339	Php357	(Php18)	(5)	Php289	Php294	(Php5)	(2)
Piltel	226	257	(31)	(12)	194	212	(18)	(8)
Prepaid Blended	308	332	(24)	(7)	263	274	(11)	(4)
Postpaid Smart	1,904	1,869	35	2	1,407	1,368	39	3
Prepaid and Postpaid Blended	330	353	(23)	(7)	278	289	(11)	(4)

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 2006 was Php339, a decrease of 5%, compared to Php357 in 2005. The average outbound domestic and international voice revenue per subscriber declined in 2006 compared to 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 2006 was Php289, a decrease of 2%, compared to Php294 in 2005. Gross monthly ARPU for *Talk N Text* subscribers in 2006 was Php226, a decrease of 12%, compared to Php257 in 2005. The decline was primarily attributable to the decrease in the average domestic outbound local voice revenue per subscriber as well as the average domestic inbound revenue per subscriber partly offset by an increase in the average text messaging revenue per subscriber. On a net basis, ARPU in 2006 decreased by 8% to Php194 from Php212 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 2% to Php1,904 while net monthly ARPU increased by 3% to Php1,407 in 2006 as compared to Php1,869 and Php1,368 in 2005, respectively. Prepaid and postpaid monthly gross blended ARPU was Php330 in 2006, a decrease of 7%, compared to Php353 in 2005. Monthly net blended ARPU decreased by 4% to Php278 in 2006 as compared to Php289 in 2005.

Our quarterly prepaid and postpaid ARPUs for the years ended December 31, 2006 and 2005 were as follows:

	Prepaid				**Postpaid**	
	Smart		**Piltel**		**Smart**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
2006						
First Quarter	Php356	Php294	Php245	Php207	Php1,867	Php1,386
Second Quarter	344	294	234	202	1,920	1,414
Third Quarter	323	280	213	184	1,891	1,403
Fourth Quarter	332	286	213	184	1,939	1,425
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.

We recognize a prepaid cellular subscriber as an active subscriber when that subscriber activates and uses the SIM card in the subscriber s handset, which contains pre-stored air time. The pre-stored air time, equivalent to Php1 plus 50 free SMS, can only be used upon purchase or reload of air time of any value. Subscribers can reload their air time by purchasing prepaid call and text cards; by purchasing additional air time over the air via *Smart Load* 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 in the third and fourth quarters of 2005, but leveled off beginning in the first quarter of 2006.

For Smart prepaid, the average monthly churn rate for 2006 was 3.1% compared to 4.0% in 2005, while the average monthly churn rate for *Talk N Text* subscribers was 3.3% in 2006 compared to 5.5% in 2005.

The average monthly churn rate for Smart's postpaid subscribers for 2006 was 1.2% compared to 2.0% 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.

Wireless Broadband, Satellite, VSAT and Other Services

Our revenues from wireless broadband, satellite, VSAT and other services consist mainly of wireless broadband service revenues for Smart Broadband, rentals received for the lease of Mabuhay Satellite s transponders and Telesat s VSAT facilities to other companies, charges for ACeS Philippines satellite phone service and service revenues generated from a PLDT Global subsidiary s mobile virtual network operations. Gross revenues from these services for 2006 amounted to Php2,778 million, an increase of Php510 million, or 22%, from Php2,268 million in 2005 principally due to the growth in our wireless broadband business.

Smart Broadband offers a number of wireless broadband services and had 121,867 subscribers as at December 31, 2006. *SmartBro*, the fixed wireless broadband service of Smart linked to Smart s wireless broadband-enabled base stations, allows people to connect to the Internet using an outdoor aerial antenna installed in a subscriber s home. Wireless broadband revenues contributed Php823 million in 2006, increasing by Php610 million, or 286%, from Php213 million in 2005.

We also offer *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 world and national WiFi roaming access. Principally targeted to the corporate market, the service had 9,623 subscribers as at December 31, 2006 and contributed Php76 million in our data revenues, an increase of Php36 million, or 90%, from Php40 million in 2005.

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 Php579 million, or 19%, to Php2,457 million in 2006 as compared to Php3,036 million in 2005 primarily due to lower handset sales as activations were driven more by SIM-pack sales in 2006.

Other Income

All other income/gains such as rental income and which do not fall under service and non-service revenues are included under this classification. Our wireless business segment generated other income of Php706 million in 2006, a decrease of Php739 million, or 51%, as compared to Php1,445 million in 2005 largely due to the reversal of prior years provision for NTC fees to align with the assessments received in 2005.

Expenses

Expenses associated with our wireless business in 2006 amounted to Php44,692 million, an increase of Php3,998 million, or 10%, from Php40,694 million in 2005. A significant portion of this increase was attributable to higher rent, asset impairment, financing costs and compensation and benefits, which was partially offset by lower cost of sales and taxes and licenses. As a percentage of our total wireless revenues and other income, expenses associated with our wireless business accounted for 55% and 51% in 2006 and 2005, respectively.

Cellular business expenses accounted for 98% of our wireless business expenses, while wireless broadband, satellite, VSAT and other business expenses accounted for the remaining 2% of our wireless business expenses in 2006 as compared to 95% and 5%, respectively, in 2005.

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

	Years Ended December 31,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
(in millions)						
Wireless services						
Depreciation and amortization	Php10,752	24	Php10,156	25	Php596	6
Rent	7,887	18	5,592	14	2,295	41
Compensation and benefits(1)	5,041	11	4,249	11	792	19
Cost of sales	4,887	11	6,148	15	(1,261)	(21)
Maintenance	3,646	8	3,655	9	(9)	
Selling and promotions	3,013	7	3,418	8	(405)	(12)
Professional and other contracted services	1,831	4	1,656	4	175	11
Financing costs	1,700	4	513	1	1,187	231
Asset impairment	1,391	3			1,391	100
Taxes and licenses	1,018	2	1,544	4	(526)	(34)
Communication, training and travel	891	2				