SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6 -K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
Of the Securities Exchange Act of 1934

For the month of November 2006, which includes financial statements for the nine months ended September 30, 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 Nine Months Ended September 30, 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 Php50.249 to US$1.00, the volume weighted average exchange rate at September 30, 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

	September 30, 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	Php245,663	Php249,713	(Php4,050)	(2)
Property, plant and equipment	170,051	176,974	(6,923)	(4)
Cash and cash equivalents and short-term investments	21,380	32,810	(11,430)	(35)
Total equity	95,900	74,369	21,531	29
Interest-bearing financial liabilities	86,956	116,616	(29,660)	(25)
Notes payable and long-term debt	*83,906*	*103,544*	*(19,638)*	*(19)*
Net debt to equity ratio[1]	0.65x	0.95x	–	–

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005	Increase (Decrease) Amount	%
		(Unaudited)		
Consolidated Statements of Income				
Revenues and other income	Php95,400	Php92,562	Php2,838	3
Expenses	65,902	59,904	5,998	10
Income before income tax	29,498	32,658	(3,160)	(10)
Net income attributable to equity holders of PLDT	25,744	24,755	989	4
Net income	26,367	24,783	1,584	6
Net income margin	28%	27%	–	–
Earnings per common share – basic	138.71	138.15	0.56	–
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	56,018	55,111	907	2
Net cash used in investing activities	25,134	4,578	20,556	449
Capital expenditures	*16,872*	*9,556*	*7,316*	*77*
Net cash used in financing activities	41,763	44,770	(3,007)	(7)
Operational Data				
Number of cellular subscribers	22,929,431	20,788,745	2,140,686	10
Number of fixed lines in service	2,075,941	2,131,861	(55,920)	(3)
Number of broadband subscribers	219,601	89,884	129,717	144
Fixed Line	*126,679*	*77,393*	*49,286*	*64*
Wireless	*92,922*	*12,491*	*80,431*	*644*
Number of employees	26,610	18,912	7,698	41
Fixed Line	*9,110*	*9,494*	*(384)*	*(4)*
Wireless	*5,328*	*5,065*	*263*	*5*
ICT	*12,172*	*4,353*	*7,819*	*180*

Exchange Rates	Php per US$
September 30, 2006	Php50.249
December 31, 2005	53.062
September 30, 2005	55.977
December 31, 2004	56.341

(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; 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 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; business process outsourcing, or BPO, provided by SPi Technologies, Inc., or SPi; 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 unaudited consolidated financial statements.

We registered total revenues and other income of Php95,400 million in the first nine months of 2006, an increase of Php2,838 million, or 3%, as compared to Php92,562 million in the same period in 2005 primarily due to an increase in our service revenues and other income of Php2,317 million and Php514 million, respectively.

Expenses increased by Php5,998 million, or 10%, to Php65,902 million in the first nine months of 2006 from Php59,904 million in the same period in 2005, largely resulting from increases in depreciation and amortization, compensation and benefits, and professional and other contracted services, partly offset by lower provisions, cost of sales and financing costs.

Net income attributable to equity holders of PLDT increased by Php989 million, or 4%, to Php25,744 million in the first nine months of 2006 from Php24,755 million in the same period in 2005. Consequently, basic earnings per common share increased to Php138.71 in the first nine months of 2006 from Php138.15 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 nine months ended September 30, 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 nine months ended September 30, 2006 (Unaudited)					
Revenues and other income	Php60,488	Php36,629	Php4,146	(Php5,863)	Php95,400
Service	58,016	35,901	3,788	(5,702)	92,003
Non-service	1,842	71	339	(92)	2,160
Equity share in net income of associates	–	–	1	–	1
Other income	630	657	18	(69)	1,236
Expenses	31,655	35,982	4,128	(5,863)	65,902
Income before income tax	28,833	647	18	–	29,498
Net income for the period	25,757	587	23	–	26,367
Net income attributable to equity holders of PLDT	25,098	586	60	–	25,744
For the nine months ended September 30, 2005 (Unaudited)					
Revenues and other income	57,648	36,847	2,423	(4,356)	92,562
Service	54,984	36,696	2,100	(4,094)	89,686
Non-service	1,999	–	248	(94)	2,153
Equity share in net income of associates	–	–	5	–	5
Other income	665	151	70	(168)	718
Expenses	30,307	31,644	2,309	(4,356)	59,904
Income before income tax	27,341	5,203	114	–	32,658
Net income for the period	20,928	3,746	109	–	24,783
Net income attributable to equity holders of PLDT	20,858	3,745	152	–	24,755

Increase (Decrease)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**Amount**	**%**
Revenues and other income	Php2,840	5	(Php218)	(1)	Php1,723	71	(Php1,507)	Php2,838	3
Service	3,032	6	(795)	(2)	1,688	80	(1,608)	2,317	3
Non-service	(157)	(8)	71	100	91	37	2	7	–
Equity share in net income of associates	–	–	–	–	(4)	(80)	–	(4)	(80)
Other income	(35)	(5)	506	335	(52)	(74)	99	518	72
Expenses	1,348	4	4,338	14	1,819	79	(1,507)	5,998	10
Income before income tax	1,492	5	(4,556)	(88)	(96)	(84)	–	(3,160)	(10)
Net income for the period	4,829	23	(3,159)	(84)	(86)	(79)	–	1,584	6
Net income attributable to equity holders of PLDT	4,240	20	(3,159)	(84)	(92)	(61)	–	989	4

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 nine months ended September 30, 2006 and 2005 by service segment:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2006	%	2005	%	Amount	%
(in millions)			(Unaudited)			
Wireless services:						
Service Revenues						
Cellular	Php56,086	93	Php53,416	93	Php2,670	5
Wireless broadband, satellite, VSAT and others	1,930	3	1,568	3	362	23
	58,016	96	54,984	96	3,032	6
Non-service Revenues						
Sale of cellular handsets and SIM-packs	1,842	3	1,999	3	(157)	(8)
Other Income	630	1	665	1	(35)	(5)
Total Wireless Revenues and Other Income	Php60,488	100	Php57,648	100	Php2,840	5

Service Revenues

Our wireless service revenues increased by Php3,032 million, or 6%, to Php58,016 million in the first nine months of 2006 compared to Php54,984 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% in the first nine months 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 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 the first nine months of 2006 amounted to Php56,086 million, an increase of Php2,670 million, or 5%, from Php53,416 million in the same period in 2005. Cellular service revenues accounted for 97% of our wireless service revenues in the first nine months of 2006 and 2005.

As at September 30, 2006, Smart and Piltel cellular subscribers totaled 22,929,431, an increase of 2,140,686, or 10%, over their combined cellular subscriber base of 20,788,745 as at September 30, 2005. Prepaid subscribers accounted for 99% of our total subscriber base as at September 30, 2006 and 2005. Prepaid and postpaid subscribers totaled 22,618,675 and 310,756 as at

September 30, 2006, reflecting net subscriber activations of 2,490,132 and 30,678, respectively, in the first nine months 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.

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 current promotion offers 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.

For 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 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 gives 15 messages without expiration. *All Text 20*, on the other hand, provides for 100 on-network messages with a validity period of one day. For voice, the flat rate call promotion 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. *All Text 10 Bonus* and *All Text 20* are valid until October 31 and November 9, 2006, respectively, while the flat rate call promotion is valid until November 10, 2006.

Smart likewise has in place various promotions to stimulate international usage. In June 2006, *Smart IDD Libre Text Broad* 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 limited duration and 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 nine months ended September 30, 2006 and 2005:

	Nine Months Ended September 30,			
			Increase	
	2006	2005	Amount	%
(in millions)	(Unaudited)			
Cellular service revenues	Php56,086	Php53,416	Php2,670	5
By component	*54,608*	*51,947*	*2,661*	*5*
Voice	26,168	26,158	10	–
Data	28,440	25,789	2,651	10
By service type	*54,608*	*51,947*	*2,661*	*5*
Prepaid	50,921	48,695	2,226	5
Postpaid	3,687	3,252	435	13
Others(1)	*1,478*	*1,469*	*9*	*1*

(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.

	September 30,			
			Increase	
	2006	2005	Amount	%
	(Unaudited)			
Cellular subscriber base	22,929,431	20,788,745	2,140,686	10
Prepaid	22,618,675	20,509,986	2,108,689	10
Smart	16,238,917	15,502,827	736,090	5
Piltel	6,379,758	5,007,159	1,372,599	27
Postpaid	310,756	278,759	31,997	11

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2006	2005	Amount	%
	(Unaudited)			
Systemwide traffic volumes (in millions)				
Calls (in minutes)	4,208	3,998	210	5
Domestic	2,578	2,804	(226)	(8)
International	1,630	1,194	436	37
Inbound	1,509	1,067	442	41
Outbound	121	127	(6)	(5)
Text messages	178,420	60,438	117,982	195
Standard	23,053	28,891	(5,838)	(20)
Bucket Promos	152,654	28,723	123,931	431
Value-Added Services	2,713	2,824	(111)	(4)

Voice Services

Cellular revenues from voice services, which include all voice traffic and voice value-added services such as voice mail and international roaming, remained flat at Php26,168 million in the first nine months of 2006 compared to Php26,158 million in the same period in 2005 primarily due to an increase in international inbound revenue and a decrease in interconnection expense, offset by a decrease in domestic voice revenues. The decline in domestic voice revenue may be attributed to the re-channeling of calls to international inbound as a result of continued efforts to curb by-pass activities while the decrease in interconnection expense resulted from a shift to on-net voice usage brought about by various promotions.

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

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as value-added services, increased by Php2,651 million, or 10%, to Php28,440 million in the first nine months of 2006 from Php25,789 million in the same period in 2005. Cellular data services accounted for 51% of cellular service revenues in the first nine months of 2006 as compared to 48% in the same period in 2005.

The following table shows the breakdown of cellular data revenues for the nine months ended September 30, 2006 and 2005:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2006	2005	Amount	%
		(Unaudited)		
(in millions)				
Text messaging				
Domestic	Php24,156	Php21,429	Php2,727	13
Standard	14,389	19,289	(4,900)	(25)
Bucket Promos	9,767	2,140	7,627	356
International	1,250	1,258	(8)	(1)
	25,406	22,687	2,719	12
Value-added services				
Non-Zed[1]	1,714	1,642	72	4
Smart Zed™	254	405	(151)	(37)
Smart Money	47	68	(21)	(31)
Mobile Banking	3	4	(1)	(25)
Roaming SMS, Pasaload, MMS and WAP	1,016	983	33	3
	3,034	3,102	(68)	(2)
Total	Php28,440	Php25,789	Php2,651	10

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

Text messaging-related services contributed revenues of Php25,406 million in the first nine months of 2006, an increase of Php2,719 million, or 12%, compared to Php22,687 million in the same period in 2005, and accounted for 89% and 88% of the total cellular data revenues in the first nine months of 2006 and 2005, respectively. The increase in revenues from text messaging-related services resulted mainly from the ongoing *Smart 258 Unlimited Text* promotion and its variant bucket-priced text promotional offerings. Text messaging revenues from the various bucket promotions totaled Php9,767 million. Value-added services, which contributed revenues of Php3,034 million in the first nine months of 2006, decreased by Php68 million, from Php3,102 million in the same period in 2005 primarily due to decreased usage of *Smart Zed* and *Smart Money* services, partially offset by higher usage of roaming SMS and WAP in the first nine months of 2006 as compared to the same period in 2005. The decline in *Smart Zed* usage was 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 23,053 million in the first nine months of 2006, a decrease of 5,838 million, or 20%, from 28,891 million in the same period in 2005 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in the first nine months of 2006 totaled 152,654 million, an increase of 123,931 million as compared to 28,723 million in the same period in 2005.

Subscriber Base, ARPU and Churn Rates

Prepaid subscribers accounted for approximately 99% of our 22,929,431 subscribers as at September 30, 2006, while postpaid subscribers accounted for the remaining 1%. The cellular prepaid subscriber base grew by 10% to 22,618,675 as at September 30, 2006 from 20,509,986 as at September 30, 2005, whereas the postpaid subscriber base increased by 11% to 310,756 as at September 30, 2006 from 278,759 as at September 30, 2005.

Our net subscriber activations for the nine months ended September 30, 2006 and 2005 were as follows:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
		(Unaudited)		
Prepaid	2,490,132	1,576,248	913,884	58
Smart	1,094,799	1,181,539	(86,740)	(7)
Piltel	1,395,333	394,709	1,000,624	254
Postpaid	30,678	4,265	26,413	619
Total	2,520,810	1,580,513	940,297	59

Revenues attributable to our cellular prepaid service amounted to Php50,921 million in the first nine months of 2006, a 5% increase over the Php48,695 million earned in the same period in 2005. Prepaid service revenues in the first nine months of 2006 and 2005 accounted for 93% and 94%, respectively, of voice and data revenues. Revenues attributable to Smart's postpaid service amounted to Php3,687 million in the first nine months of 2006, a 13% increase over the Php3,252 million earned in the same period in 2005 and accounted for 7% and 6% of voice and data revenues in the first nine months of 2006 and 2005, respectively.

The following table summarizes our cellular ARPUs for the nine months ended September 30, 2006 and 2005:

	Nine Months Ended September 30,							
	Gross		**Increase (Decrease)**		**Net**		**Increase (Decrease)**	
	2006	**2005**	**Amount**	**%**	**2006**	**2005**	**Amount**	**%**
				(Unaudited)				
Prepaid								
Smart	Php341	Php352	(Php11)	(3)	Php290	Php290	Php–	–
Piltel	231	255	(24)	(9)	197	209	(12)	(6)
Prepaid – Blended	312	329	(17)	(5)	265	270	(5)	(2)
Postpaid – Smart	1,893	1,850	43	2	1,401	1,335	66	5
Prepaid and Postpaid Blended	333	349	(16)	(5)	280	284	(4)	(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 the first nine months of 2006 was Php341, a decrease of 3%, compared to Php352 in the same period in 2005. The average outbound domestic and international voice revenue per subscriber declined in the first nine months 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 nine months of 2006 and 2005 remained flat at Php290. Gross monthly ARPU for *Talk 'N Text* subscribers in the first nine months of 2006 was Php231, a decrease of 9%, compared to Php255 in the same period in 2005. The decline was 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 the first nine months of 2006 decreased by 6% to Php197 from Php209 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 2% to Php1,893 while net monthly ARPU increased by 5% to Php1,401 in the first nine months of 2006 as compared to Php1,850 and Php1,335 in the same period in 2005, respectively. Prepaid and postpaid monthly gross blended ARPU was Php333 in the first nine months of 2006, a decrease of 5%, compared to Php349 in the same period in 2005. Monthly net blended ARPU decreased by 1% to Php280 in the first nine months of 2006 as compared to Php284 in the same period in 2005.

Our quarterly prepaid and postpaid ARPUs for the nine months ended September 30, 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
Second Quarter	344	294	234	202	1,920	1,414
Third Quarter	323	280	213	184	1,891	1,403
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 activated and used the SIM card in the handset, which contained 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 tapered off beginning the first quarter of 2006.

For Smart prepaid, the average monthly churn rate for the first nine months of 2006 was 3.2% compared to 3.7% in the same period in 2005, while the average monthly churn rate for *Talk ‘N Text* subscribers was 3.5% in the first nine months of 2006 compared to 4.5% in the same period in 2005.

The average monthly churn rate for Smart's postpaid subscribers for the first nine months of 2006 was 1.2% compared to 2.1% 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.

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 the first nine months of 2006 amounted to Php1,930 million, an increase of Php362 million, or 23%, from Php1,568 million in the same period in 2005 principally due to the growth in our wireless broadband business.

Smart Broadband offers a number of wireless broadband services with 92,922 subscribers as at September 30, 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 Php341 million in the first three quarters of 2006, increasing by Php231 million, or 210%, from Php110 million in the same period 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 Php157 million, or 8%, to Php1,842 million in the first nine months of 2006 as compared to Php1,999 million in the same period in 2005 primarily due to lower handset sales. In the first nine months of 2006, activations were driven more by SIM-pack sales.

Other Income

All other income/gains such as rental income and gains on short-term financial investments, which do not fall under service and non-service revenues, are included under this classification. Our wireless business segment generated other income of Php630 million in the first nine months of 2006, a decrease of Php35 million, or 5%, as compared to Php665 million in the same period in 2005.

Expenses

Expenses associated with our wireless business in the first nine months of 2006 amounted to Php31,655 million, an increase of Php1,348 million, or 4%, from Php30,307 million in the same period in 2005. A significant portion of this increase was attributable to higher rent, compensation and benefits, and depreciation and amortization 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 accounted for 52% and 53% in the first nine months of 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 the first nine months 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 nine months ended September 30, 2006 and 2005 and the percentage of each expense item to the total:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
			(Unaudited)			
(in millions)						
Wireless services						
Depreciation and amortization	Php7,948	25	Php7,354	24	Php594	8
Rent	5,157	16	3,696	12	1,461	40
Compensation and benefits(1)	3,928	13	2,907	10	1,021	35
Cost of sales	3,600	11	4,805	16	(1,205)	(25)
Maintenance	2,688	9	2,516	8	172	7
Selling and promotions	2,032	6	2,325	8	(293)	(13)
Financing costs	1,845	6	1,870	6	(25)	(1)
Professional and other contracted services	1,332	4	1,001	3	331	33
Taxes and licenses	754	2	963	3	(209)	(22)
Communication, training and travel	632	2	714	2	(82)	(11)
Insurance and security services	620	2	733	3	(113)	(15)
Provisions	397	1	490	2	(93)	(19)
Amortization of intangible assets	236	1	267	1	(31)	(12)
Other expenses	486	2	666	2	(180)	(27)
Total	Php31,655	100	Php30,307	100	Php1,348	4

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

Depreciation and amortization charges increased by Php594 million, or 8%, to Php7,948 million in the first nine months of 2006 principally due to an increase in our depreciable asset base and additional depreciation provided for certain equipment amounting to Php527 million and Php360 million for the first nine months of 2006 and 2005, respectively. The useful lives of certain of these 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 Php1,461 million, or 40%, to Php5,157 million on account of an increase in domestic fiber optic network, or DFON, facilities leased by Smart from PLDT, higher satellite transmission and site rental expenses. As at September 30, 2006, we had 4,365 GSM cell sites and 6,079 base stations, compared with 4,236 GSM cell sites and 5,831 base stations as at September 30, 2005.

Compensation and benefits expenses increased by Php1,021 million, or 35%, to Php3,928 million primarily due to higher accrued bonuses, employee benefits and long-term incentive costs of Smart. Smart's employee headcount increased by 259, or 5%, to 5,274 in the first nine months of 2006 as compared to 5,015 in the same period in 2005.

Cost of sales decreased by Php1,205 million, or 25%, to Php3,600 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 nine months ended September 30, 2006 and 2005 is as follows:

	Nine Months Ended September 30,			
			Decrease	
	2006	2005	Amount	%
		(Unaudited)		
(in millions)				
Cost of cellular handsets and SIM-packs sold	Php3,454	Php4,623	(Php1,169)	(25)
Cost of satellite air time and terminal units	146	182	(36)	(20)
	Php3,600	Php4,805	(Php1,205)	(25)

Maintenance expenses increased by Php172 million, or 7%, to Php2,688 million mainly on account of higher expenses for electricity and power generation and higher repairs and maintenance costs for network and office facilities.

Selling and promotion expenses decreased by Php293 million, or 13%, to Php2,032 million due to lower spend on billboards, events, merchandising, premium items and prepaid card printing costs.

Financing costs in the first nine months of 2006 amounted to Php1,845 million, a decrease of Php25 million, or 1%, from Php1,870 million in the same period in 2005 due to the combined results of: (1) higher foreign exchange gains recognized in the first nine months of 2006 primarily as a result of the appreciation of the Philippine peso to the U.S. dollar from December 31, 2005 to September 30, 2006; (2) a gain on derivatives in the first nine months of 2006 as against a loss on derivatives recognized in the same period in 2005; (3) lower interest expense, net of capitalized interest; and (4) higher interest income recorded in the first nine months of 2006 as compared to the same period in 2005. These decreasing effects were partially offset by higher amortization of debt discounts brought about by the prepayment of Piltel's debt in 2006. The breakdown of our financing costs for our wireless business for the nine months ended September 30, 2006 and 2005 is as follows:

	Nine Months Ended September 30,			
			Change	
	2006	2005	Amount	%
		(Unaudited)		
(in millions)				
Accretion on financial liabilities – net	Php2,887	Php2,014	Php873	43
Interest on loans and related items	1,274	1,373	(99)	(7)
Foreign exchange gains – net	(1,322)	(1,049)	(273)	(26)
Dividends on preferred stock subject to mandatory redemption	113	196	(83)	(42)
Financing charges	33	50	(17)	(34)
Loss (gain) on derivative transactions – net	(24)	141	(165)	(117)
Capitalized interest	(205)	(43)	(162)	377
Interest income	(911)	(812)	(99)	12
	Php1,845	Php1,870	(Php25)	(1)

Professional and other contracted services increased by Php331 million, or 33 %, to Php1,332 million primarily due to increased call center, legal, contracted service, market research, management and technical service fees.

Taxes and licenses decreased by Php209 million, or 22%, to Php754 million primarily due to a decrease in Smart's business-related taxes.

Communication, training and travel expenses decreased by Php82 million, or 11%, to Php632 million due to lower mailing and courier, training, communication and local travel expenses incurred in the first nine months of 2006.

Insurance and security services decreased by Php113 million, or 15%, to Php620 million primarily due to the decrease in site security expenses and lower amortization charges on prepaid insurance contracts.

Provisions decreased by Php93 million, or 19%, to Php397 million primarily due to a decrease in write-down of slow-moving handsets to net realizable values. The breakdown of provisions for the nine months ended September 30, 2006 and 2005 is as follows:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
	(Unaudited)			
(in millions)				
Doubtful accounts	Php208	Php149	Php59	40
Write-down of inventories to net realizable values	189	341	(152)	(45)
	Php397	Php490	(Php93)	(19)

Amortization of intangible assets decreased by Php31 million, or 12%, to Php236 million mainly due to a reduction in the amount of intangible assets booked by Smart from the purchase of Smart Broadband following the finalization by an independent appraiser of the valuation work on the intangible assets in December 2005.

Other expenses decreased by Php180 million, or 27%, to Php486 million due to lower various business and operational-related expenses such as office supplies expense.

Provision for Income Tax

Provision for income tax decreased by Php3,337 million, or 52%, to Php3,076 million in the first nine months of 2006 from Php6,413 million in the same period in 2005. In the first nine months of 2006, the effective tax rate for our wireless business was 11% as compared to 23% in the same period in 2005 due to differences in the net movement of deferred tax assets. For 2006, the net movement in deferred tax assets pertains to deferred tax assets recognized in relation to the benefit that would be derived from the disposal of certain of Piltel's assets with the expected lifting of the Mortgage Trust Indenture restrictions resulting from the full prepayment of its restructured debt on December 4, 2006. Please see *Note 6 – Income Tax* and *Note 8 – Property, Plant and Equipment* to the accompanying unaudited consolidated financial statements for further discussion.

Net Income

Our wireless business segment recorded a net income of Php25,757 million in the first nine months of 2006, an increase of Php4,829 million, or 23%, over Php20,928 million registered in the same period in 2005 primarily due to the growth in our cellular service revenues and lower provision for income tax partly offset by 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 nine months of 2006 totaled Php36,629 million, a decrease of Php218 million, or 1%, from Php36,847 million in the same period in 2005.

The following table summarizes revenues from our fixed line business for the nine months ended September 30, 2006 and 2005 by service segment:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2006	%	2005	%	Amount	%
			(Unaudited)			
(in millions)						
Fixed line services:						
Service Revenues						
Local exchange	Php12,862	35	Php13,907	38	(Php1,045)	(8)
International long distance	7,434	20	9,369	25	(1,935)	(21)
National long distance	5,117	14	5,329	15	(212)	(4)
Data and other network	9,420	26	7,162	19	2,258	32
Miscellaneous	1,068	3	929	3	139	15
	35,901	98	36,696	100	(795)	(2)
Non-Service Revenues	71	–	–	–	71	100
Other Income	657	2	151	–	506	335
Total Fixed Line Revenues and Other Income	Php36,629	100	Php36,847	100	(Php218)	(1)

Service Revenues

Local Exchange Service

Our local exchange service revenues consist of:

- flat monthly fees for our postpaid and fixed charges for our bundled services;
- 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 nine months ended September 30, 2006 and 2005:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2006	2005	Amount	%
	(Unaudited)			
Total local exchange service revenues (in millions)	Php12,862	Php13,907	(Php1,045)	(8)
Number of fixed lines in service	2,075,941	2,131,861	(55,920)	(3)
Number of fixed line employees	9,110	9,494	(384)	(4)
Number of fixed lines in service per employee	228	225	3	1

Revenues from our local exchange service decreased by Php1,045 million, or 8%, to Php12,862 million in the first nine months of 2006 from Php13,907 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 total fixed line service revenues decreased to 35% in the first nine months of 2006 as compared to 38% in the same period in 2005.

Fixed line net reduction in the first nine months of 2006 was 37,858 compared to a net reduction of 20,166 in the same period in 2005. In the first nine months of 2006, prepaid and postpaid fixed lines in service declined by 19,438 and 18,420, respectively. As at September 30, 2006, postpaid and prepaid fixed line subscribers totaled 1,772,477 and 303,464, which accounted for approximately 85% and 15%, 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.

In July 2006, PLDT launched *Telepwede*, a new brand of our prepaid fixed line service. *Telepwede* subscribers are charged Php2 per local call (for an unlimited duration) and Php5 per hour for Internet connection. *Telepwede* subscribers can reload for as low as Php145 per month which is inclusive of a Php30 load balance that can be used for outgoing calls and a Php115 access charge for incoming calls.

Pursuant to a currency exchange rate adjustment mechanism authorized by the Philippine National Telecommunications Commission, or the NTC, we adjust our postpaid monthly local service rates upward or downward by 1% for every Php0.10 change in the peso-to-dollar exchange rate relative to a base rate of Php11.00 to US$1.00. During the first nine months of 2006, we implemented six downward adjustments and three upward adjustments in our monthly local service rates, while there were four downward adjustments and three upward adjustments for the same period in 2005. The average Philippine peso to U.S. dollar rate factored in our monthly local service rates in the first nine months of 2006 was Php52.03 to US$1.00, compared to an average of Php55.15 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 6%, which resulted in an average net decrease of approximately 5% in our monthly local service rates in the first nine months 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 nine months ended September 30, 2006 and 2005:

	Nine Months Ended September 30,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
	(Unaudited)			
Total international long distance service revenues (in millions)	Php7,434	Php9,369	(Php1,935)	(21)
Inbound	6,220	8,043	(1,823)	(23)
Outbound	1,214	1,326	(112)	(8)
International call volumes (in million minutes, except call ratio)	1,582	1,741	(159)	(9)
Inbound	1,442	1,634	(192)	(12)
Outbound	140	107	33	31
Inbound-outbound call ratio	10.3:1	15.3:1	–	–

Our total international long distance service revenues decreased by Php1,935 million, or 21%, to Php7,434 million in the first nine months of 2006 from Php9,369 million in the same period in 2005 due to the peso appreciation, a decrease in average termination rates for inbound calls and a decline 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 total fixed line service revenues decreased to 20% in the first nine months of 2006 from 25% in the same period in 2005.

Our revenues from inbound international long distance service decreased by Php1,823 million, or 23%, to Php6,220 million due to a decrease in inbound traffic volume by 192 million minutes to 1,442 million minutes in the first nine months of 2006. In addition, the appreciation of the Philippine peso to the U.S. dollar with average rates of Php51.832 during the first nine months of 2006 and Php55.244 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 Php112 million, or 8%, to Php1,214 million in the first nine months 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 nine months 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 nine months ended September 30, 2006 and 2005:

	Nine Months Ended September 30,			
			Decrease	
	2006	2005	Amount	%
	(Unaudited)			
Total national long distance service revenues (in millions)	Php5,117	Php5,329	(Php212)	(4)
National long distance call volumes (in million minutes)	1,688	1,827	(139)	(8)

Our national long distance service revenues decreased by Php212 million, or 4%, to Php5,117 million in the first nine months of 2006 from Php5,329 million in the same period in 2005 due to a decrease in call volumes partially offset by a higher average revenue per minute in 2006 due to the change in mechanics in our Php10 per call promotion. In 2005, the Php10 per call promotion was open to all PLDT Group fixed line subscribers nationwide while in 2006, the Php10 per call service was made available only to registered PLDT subscribers for a monthly service fee. Accordingly, the percentage contribution of national long distance revenues to our fixed line service revenues accounted for 14% and 15% in the first nine months of 2006 and 2005, respectively.

In February 2005, we launched a Php10 per call promotion to PLDT landline subscribers nationwide and for calls to PLDT, 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 subscribers nationwide or to all Smart and *Talk 'N Text* subscribers were charged Php10 per call instead of being charged on a per minute basis.

In January 2006, PLDT launched the *10-10-10* promotion where we charge 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 nine months ended September 30, 2006 and 2005:

	Nine Months Ended September 30,			
			Increase	
	2006	**2005**	**Amount**	**%**
(in millions)		(Unaudited)		
Data and other network service revenues	Php9,420	Php7,162	Php2,258	32
Number of PLDT DSL broadband subscribers	118,679	76,059	42,620	56
Number of PLDT Vibe narrowband subscribers	422,135	370,821	51,314	14

Our data and other network services in the first nine months of 2006 posted revenues of Php9,420 million, an increase of Php2,258 million, or 32%, from Php7,162 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 26% in the first nine months of 2006 from 19% 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 contributed revenues of Php2,299 million during the first nine months of 2006, an increase of Php627 million, or 38%, from Php1,672 million in the same period in 2005. *PLDT DSL* reached 118,679 subscribers as at September 30, 2006 compared with 76,059 subscribers in the same period in 2005. *PLDT DSL* offers a number of 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 Php81 million, or 39%, to Php288 million in the first nine months of 2006 from Php207 million in the same period in 2005. As at September 30, 2006, the number of PLDT's fixed line subscribers accessing *PLDT Vibe* stood at 422,135, of which 148,392 were exclusive postpaid users, 256,196 were exclusive prepaid users, and 17,547 were both postpaid and prepaid users. As at September 30, 2005, *PLDT Vibe* subscribers totaled 370,821, of which 136,734 were exclusive postpaid users, 209,530 were exclusive prepaid users, and 24,557 were both postpaid and prepaid users.

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 also provide Smart's increasing fiber optic and leased line data requirements, which are included under our national data services. Diginet contributed Php4,247 million in our data revenues in the first nine months of 2006, increasing by Php1,458 million, or 52%, from Php2,789 million in the same period 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 globe and national WiFi roaming access. Principally targeted to the corporate market, the service had 8,000 subscribers as at September 30, 2006 and contributed Php56 million in our data revenues, an increase of Php43 million, or 331%, from Php13 million in the same period in 2005.

In June 2006, we introduced *Shops.Work UnPlugged*, or *SWUP*, to address the need of retailers and banks for real-time wireless data communication. *SWUP* is the first bundled solution that makes wireless cashier point-of-sale and wireless card terminals possible. Retailers will now be able to reach out to a bigger market in areas where physical connections are unavailable and expand the banking system with wireless automated teller machines, or ATMs.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising and facilities rental. In the first nine months of 2006, these revenues increased by Php139 million, or 15%, to Php1,068 million from Php929 million in the same period in 2005. The improvement was mainly due to an increase in rent income primarily from co-location charges on account of more co-location sites coupled with an increase in facility management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in the first nine months of 2006 and 2005.

Non-service Revenues

Non-service revenues of Php71 million recognized under our fixed line business represent proceeds of computer sales in the first nine months 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 nine months of 2006, our fixed line business segment registered an increase in other income of Php506 million, or 335%, to Php657 million from Php151 million in the same period in 2005 primarily due to higher rental income, income from disposal of property and materials, and gain on sale of fixed assets.

Expenses

Expenses related to our fixed line business in the first nine months of 2006 totaled Php35,982 million, an increase of Php4,338 million, or 14%, as compared to Php31,644 million in the same period in 2005. The increase was primarily due to higher depreciation and amortization, and compensation and benefits partially offset by lower provisions and financing costs.

The following table shows the breakdown of our total fixed line-related expenses for the nine months ended September 30, 2006 and 2005 and the percentage of each expense item to the total:

	Nine Months ended September 30,					
					Increase (Decrease)	
	2006	%	2005	%	Amount	%
			(Unaudited)			
(in millions)						
Fixed line services:						
Depreciation and amortization	Php15,248	42	Php8,998	28	Php6,250	69
Compensation and benefits[1]	7,519	21	6,216	20	1,303	21
Financing costs	5,331	15	6,218	20	(887)	(14)
Maintenance	2,442	7	2,587	8	(145)	(6)
Selling and promotions	1,345	4	1,329	4	16	1
Rent	1,202	3	1,289	4	(87)	(7)
Professional and other contracted services	682	2	721	2	(39)	(5)
Taxes and licenses	491	2	592	2	(101)	(17)
Provisions	478	1	2,265	7	(1,787)	(79)
Insurance and security services	388	1	504	2	(116)	(23)
Communication, training and travel	369	1	338	1	31	9
Cost of sales	113	–	–	–	113	100
Other expenses	374	1	587	2	(213)	(36)
Total	Php35,982	100	Php31,644	100	Php4,338	14

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

Depreciation and amortization charges increased by Php6,250 million, or 69%, to Php15,248 million mainly due to the effect of the 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 Php6,105 million for the first nine months of 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 Php1,303 million, or 21%, to Php7,519 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 manpower rightsizing program.

Financing costs decreased by Php887 million, or 14%, to Php5,331 million largely due to lower interest on loans and related items owing to lower debt balances in the first nine months of 2006 compared to the same period in 2005. This decreasing effect was partially offset by: (1) a loss on derivatives recognized in the first nine months of 2006 compared to gain on derivatives recognized in the same period in 2005; (2) higher hedge costs; and (3) lower foreign exchange gains recorded in the first nine months of 2006 due to lower debt levels in the first nine months of 2006 as compared to the same period in 2005. The breakdown of financing costs for our fixed line business for the nine months ended September 30, 2006 and 2005 is as follows:

	Nine Months ended September 30,			
			Change	
	2006	**2005**	**Amount**	**%**
	(Unaudited)			
(in millions)				
Interest on loans and related items	Php4,826	Php7,003	(Php2,177)	(31)
Hedge costs	1,090	889	201	23
Accretion on financial liabilities – net	156	195	(39)	(20)
Loss (gain) on derivative transactions – net	175	(578)	753	130
Financing charges	11	31	(20)	(65)
Capitalized interest	(223)	(305)	82	(27)
Foreign exchange gains – net	(331)	(730)	399	(55)
Interest income	(373)	(287)	(86)	30
	Php5,331	Php6,218	(Php887)	(14)

Maintenance expenses decreased by Php145 million, or 6%, to Php2,442 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 nine months of 2005 as compared to the same period in 2006.

Selling and promotion expenses increased by Php16 million, or 1%, to Php1,345 million primarily as a result of an increase in PLDT's promotional activities in relation to various products and services, such as PLDT's *Pwede!* campaign, partially offset by lower commissions paid in the first nine months of 2006.

Rent expenses decreased by Php87 million, or 7%, to Php1,202 million due to lower office and building rentals, and a decrease in transponder lease charges partially offset by an increase in international leased circuits and rental charges occupied by various equipments.

Professional and other contracted services decreased by Php39 million, or 5%, to Php682 million primarily due to lower advisory and legal fees complemented by a decrease in facility management fees and payment facility fees in the first nine months of 2006.

Taxes and licenses decreased by Php101 million, or 17%, to Php491 million mainly on account of lower business-related taxes incurred in the first nine months of 2006 as compared to the same period in 2005.

Provisions decreased by Php1,787 million, or 79%, to Php478 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 2005. The breakdown of provisions for our fixed line business for the nine months ended September 30, 2006 and 2005 is as follows:

	Nine Months Ended September 30,			
			Change	
	2006	2005	Amount	%
		(Unaudited)		
(in millions)				
Doubtful accounts	Php492	Php1,915	(Php1,423)	(74)
Write-down of inventories to net realizable value	–	153	(153)	(100)
Onerous contracts and assessments	(14)	197	(211)	(107)
	Php478	Php2,265	(Php1,787)	(79)

Insurance and security services decreased by Php116 million, or 23%, to Php388 million primarily due to lower premiums on property all-risk, industrial all-risk and industrial fire insurance complemented by lower security services due to a decrease in number of contracted security guards.

Communication, training and travel expenses increased by Php31 million, or 9%, to Php369 million due to an increase in local and foreign travel and training in the first nine months of 2006 as compared to the same period in 2005.

Cost of sales of computers amounting to Php113 million were recognized in the first nine months of 2006 in relation to our DSL promo. No such charges were incurred in the same period in 2005.

Other expenses decreased by Php213 million, or 36%, to Php374 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 Php60 million in the first nine months of 2006 as compared to Php1,457 million in the same period in 2005, a decrease of Php1,397 million, or 96%, primarily due to lower income subject to tax.

Net Income

In the first nine months of 2006, our fixed line business segment contributed a net income of Php587 million, a decrease of Php3,159 million, or 84%, as compared to Php3,746 million in the same period in 2005 mainly as a result of a 14% increase in fixed line-related expenses, particularly depreciation and amortization.

Information and Communications Technology

Revenues and Other Income

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

On July 11, 2006, ePLDT acquired 100% of SPi Technologies, Inc., or SPi, and its direct and indirect Philippine and offshore subsidiaries. SPi is the second largest pure-play BPO and the ninth largest independent BPO service provider worldwide. It has operations in 19 locations in North America, Europe and Asia. On August 11, 2006, SPi acquired 100% of CyMed, Inc., a leading medical transcription company based in Richmond, Virginia.

For further discussion, see *Note 2 – Summary of Accounting Policies and Practices – Basis of Preparation* to the accompanying unaudited consolidated financial statements.

In the first nine months of 2006, our information and communications technology business generated revenues of Php4,146 million, an increase of Php1,723 million, or 71%, from Php2,423 million in the same period in 2005. Going forward, we expect revenues from our call center and business process outsourcing businesses to continue to contribute significantly to our information and communications technology revenues in light of the growing demand for our call center services.

The following table summarizes revenues from our information and communications technology business for the nine months ended September 30, 2006 and 2005 by service segment:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
			(Unaudited)			
(in millions)						
Service Revenues						
Call center	Php1,920	46	Php1,361	56	Php559	41
Business process outsourcing	930	23	–	–	930	100
Internet and gaming	561	14	422	18	139	33
Vitro™ data center	287	7	269	11	18	7
Others	90	2	48	2	42	88
	3,788	92	2,100	87	1,688	80
Non-service Revenues						
Point Product Sales	339	8	248	10	91	37
Other Income	18	–	70	3	(52)	(74)
Equity in net income of associates	1	–	5	–	(4)	(80)
Total ICT Revenues and Other Income	Php4,146	100	Php2,423	100	Php1,723	71

Service Revenues

Service revenues generated by our information and communications technology segment amounted to Php3,788 million in the first nine months of 2006, an increase of Php1,688 million, or 80%, as compared to Php2,100 million in the same period in 2005 primarily as a result of the continued growth of our call center business and the consolidation of SPi and Level Up!.

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 has established 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 approximately 5,130 seats with 4,010 customer service representatives, or CSRs, as at September 30, 2006 compared to approximately 3,320 seats with 3,040 CSRs as at September 30, 2005. In 2006, *ePLDT Ventus* launched two new sites bringing our total call center sites to seven as at September 30, 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 BPO based on transaction volume.

Revenues related to our call center business in the first nine months of 2006 increased by Php559 million, or 41%, to Php1,920 million from Php1,361 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 increase in the number of registered minutes for Parlance's inbound projects and hours for outbound projects;
- the expansion of Vocativ's Taguig existing facility by 450 seats from approximately 1,160 in the first nine months of 2005 to approximately 1,610 in the same period in 2006;
- the expansion of Ventus' Iloilo existing facility by 80 seats from approximately 370 seats in the first nine months of 2005 to approximately 450 seats in the same period in 2006; and
- the commencement of Ventus Pasig call center operations in August 2006.

Call center revenues accounted for 51% and 65% of total information and communications technology service revenues in the first nine months of 2006 and 2005, respectively.

Business process outsourcing, or BPO

BPO revenues consist of:

- editorial and content production services to the scholarly scientific, technical and medical (SSTM) journal publishing industry;
- digital content conversion services to information incentive organizations such as online and traditional publishers, libraries, educational institutions, Global 1,000 corporations and government agencies worldwide;
- pre-press project management services to book publishers;

- litigation support services which involve conventional coding and electronic discovery support services for international law firms, corporate counsels and government agencies; and

- conversion services of medical record/data from handwritten or speech format to electronic format.

In the first nine months of 2006, BPO contributed revenues of Php930 million mainly from SPi services and accounted for 24% of service revenues of our information and communications technology business in the first nine months of 2006.

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, an Internet service provider offering 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 with the brand *Netopia*;

- a 60% interest in netGames, a publisher for Massively Multi-player Online Game in the Philippines and the Philippine licensee of Khan Online, Pangya and Flyff, and the owner of Juanworld, a community gaming portal;

- a 60% interest in Level Up!, a leading publisher of online games in the Philippines with about 80% of the online gaming market. Level Up! was acquired on May 1, 2006;

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

- a 51% interest in Digital Paradise Thailand, an affiliate of Digital Paradise, offering similar products and services with four branches 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 including e-mail and web hosting services;

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

- franchise and royalty fees for *Netopia* Internet cafés, including a one-time subscription fee and monthly recurring franchise fees based on certain conditions on the franchise agreement;
- revenues from community access of computers and desktop publishing based on actual usage, net of discounts given to users; and
- online gaming revenues from unique subscribers, including one-time sale of gaming cards and electronic pins, and top-up fees upon actual consumption of gaming credits or after expiration of any unused peso value thereof.

Revenues from our Internet business in the first nine months of 2006 increased by Php139 million, or 33%, to Php561 million from Php422 million in the same period in 2005 primarily due to the consolidation of Airborne Access and Level Up! in October 2005 and May 2006, respectively, which resulted to additional revenues of Php8 million and Php88 million, respectively. Our Internet business revenues accounted for 15% and 20% of service revenues of our information and communications technology business in the first nine months of 2006 and 2005, respectively.

Vitro™ data center

ePLDT operates an Internet data center under the brand name *Vitro*™ which 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 firewalls and managed firewalls.

Vitro™ revenues consist of:

- monthly service fees derived from co-location services, server hosting, hardware and software maintenance services, website development and maintenance services, web hosting, data recovery security services and other value added services; and
- installation charges or one-time fees associated with the set-up of services and professional services of Vitro's certified professionals.

In the first nine months of 2006, *Vitro*™ contributed revenues of Php287 million, an increase of Php18 million, or 7%, from Php269 million in the same period in 2005 primarily due to an increase in co-location revenues and server hosting. *Vitro*™ revenues accounted for 8% and 13% of service revenues of our information and communications technology business in the first nine months of 2006 and 2005, respectively.

Others

Other revenues consist of:

- fees generated for issuance of digital certificates and licenses; and
- revenues derived from IT helpdesk/contact center solutions and terminals for credit, debit and credit card transactions.

Revenues from other businesses related to our information and communications technology segment in the first nine months of 2006 increased to Php90 million from Php48 million in the same period in 2005 largely due to IT helpdesk/contact center services rendered coupled with an increase in the number of digital certificates sold.

Please refer to *Note 9 – Investments in Associates* to the accompanying unaudited consolidated financial statements for further discussion on ePLDT's other information and communications technology services.

Non-service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In the first nine months of 2006, non-service revenues generated by our information and communications technology business increased by Php91 million, or 37%, to Php339 million as compared to Php248 million in the same period in 2005 primarily due to higher revenues from sales of networking equipment and software licenses.

Other Income

All other income/gains which do not fall under service and non-service revenues are included under this classification. Other income generated from our information and communications technology business segment decreased to Php18 million in the first nine months of 2006 from Php70 million in the same period in 2005 primarily due to Infocom's sale of its *NOW* cable Internet business in the first nine months of 2005; no similar transaction was incurred in the same period in 2006.

Equity Share in Net Income of Associates

ePLDT's equity share in net income of associates amounted to Php1 million in the first nine months of 2006, a decrease of Php4 million, or 80%, compared to Php5 million in the same period in 2005 due to share in the losses of its unconsolidated subsidiaries, ePDS, Inc. and Philweb Corporation, or Philweb.

Expenses

Expenses associated with our information and communications technology business totaled Php4,128 million in the first nine months of 2006, an increase of Php1,819 million, or 79%, from Php2,309 million in the same period in 2005 primarily due to the consolidation of SPi and Level Up! resulting in an increase in compensation and benefits, professional and other contracted services, and selling and promotions. As a percentage of our information and communications technology revenues, expenses related to our information and communications technology business were at 99% and 95% for the first nine months of 2006 and 2005, respectively.

The following table shows the breakdown of our total information and communications technology-related expenses for the nine months ended September 30, 2006 and 2005 and the percentage of each expense item to the total:

	Nine Months Ended September 30,					
					Increase (Decrease)	
	2006	%	2005	%	Amount	%
			(Unaudited)			
(in millions)						
Information and communications technology services:						
Compensation and benefits[(1)]	Php1,738	42	Php941	41	Php797	85
Selling and promotions	498	12	241	10	257	107
Depreciation and amortization	463	11	304	13	159	52
Professional and other contracted services	416	10	22	1	394	1,791
Rent	356	9	224	10	132	59
Maintenance	258	6	266	12	(8)	(3)
Communication, training and travel	170	4	64	3	106	166
Financing costs	54	1	10	–	44	440
Taxes and licenses	43	1	93	4	(50)	(54)
Insurance and security services	21	1	19	1	2	11
Amortization of intangible assets	19	1	–	–	19	100
Provisions	(3)	–	2	–	(5)	(250)
Other expenses	95	2	123	5	(28)	(23)
Total	Php4,128	100	Php2,309	100	Php1,819	79

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

Compensation and benefits increased by Php797 million, or 85%, to Php1,738 million largely due to the increased headcount and corresponding salaries and employee benefits resulting from the expansion of our call center businesses and the consolidation of SPi and Level Up! in the first nine months of 2006. In addition, the amount accrued for the long-term incentive plan was higher in 2006 as compared to the same period in 2005.

Selling and promotion expenses increased by Php257 million, or 107%, to Php498 million mainly due to an increase in the cost of point products sold in 2006 and higher advertising and marketing spending of netGames and Level Up!.

Depreciation and amortization charges increased by Php159 million, or 52%, to Php463 million primarily due to an increase in the depreciable asset base in relation to the expansion of our call center businesses and the consolidation of SPi in July 2006.

Professional and other contracted services increased by Php394 million to Php416 million primarily due to sub-contractor services availed by SPi from third parties related to its BPO services.

Rent expenses increased by Php132 million, or 59%, to Php356 million primarily due to the opening of two additional call center sites during the first nine months of 2006 which led to increased rental of leased circuits.

Maintenance expenses decreased by Php8 million, or 3%, to Php258 million primarily due to Vitro's lower hardware and server maintenance costs partially offset by higher hosting-related costs incurred in the first nine months of 2006 as compared to the same period in 2005.

Communication, training and travel expenses increased by Php106 million, or 166%, to Php170 million due to the increased cost of phone lines, bandwidth and information system charges, coupled with the increase in foreign and local travel costs incurred by our call center and BPO businesses.

Financing costs increased by Php44 million, or 440%, to Php54 million primarily due to the consolidation of SPi.

Taxes and licenses decreased by Php50 million, or 54%, to Php43 million due to lower business-related taxes accrued and paid in the first nine months of 2006 as compared to the same period in 2005.

Insurance and security services increased by Php2 million, or 11%, to Php21 million primarily due to higher premium costs and an increase in the value of assets insured in the first nine months of 2006 as compared to the same period in 2005.

An amortization of intangible assets amounting to Php19 million was booked in the first nine months of 2006 in relation to the acquisition of SPi and Level Up!. See *Note 11 – Goodwill and Intangible Assets* to the accompanying unaudited consolidated financial statements for further discussion.

Provisions amounted to negative Php3 million in the first nine months of 2006 as against a provision of Php2 million in the same period in 2005 due to reversals made on current bad debt allowance levels based on latest collection experience.

Other expenses decreased by Php28 million, or 23%, to Php95 million mainly due to lower business-related costs as part of our cost-cutting measures.

Provision for (Benefit from) Income Tax

Benefit from income tax amounted to Php5 million in the first nine months of 2006 primarily due to the recognition of deferred tax assets pertaining to net operating loss carry-over and allowance for doubtful accounts as compared to a provision for income tax of Php5 million in the same period in 2005.

Net Income

In the first nine months of 2006, our information and communications technology business segment registered a net income of Php23 million, a decrease of Php86 million, or 79%, as compared to Php109 million in the same period in 2005 mainly as a result of a 79% increase in ICT-related expenses which more than offset the increase in ICT revenues.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the nine months ended September 30, 2006 and 2005 as well as consolidated capitalization and other selected financial data as at September 30, 2006 and December 31, 2005:

	Nine Months Ended September 30,	
	2006	**2005**
	(Unaudited)	
(in millions)		
Cash Flows		
Net cash provided by operating activities	Php56,018	Php55,111
Net cash used in investing activities	25,134	4,578
Capital expenditures	16,872	9,556
Net cash used in financing activities	41,763	44,770
Net increase (decrease) in cash and cash equivalents	(11,400)	5,571

	September 30,	December 31,
	2006	**2005**
	(Unaudited)	(Audited)
(in millions)		
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php64,253	Php84,860
Obligations under capital lease	202	381
Preferred stock subject to mandatory redemption	1,989	11,974
	66,444	97,215
Current portion of interest-bearing financial liabilities:		
Notes payable	188	–
Long-term debt maturing within one year	19,465	18,684
Obligations under capital lease maturing within one year	859	717
	20,512	19,401
Total interest-bearing financial liabilities	86,956	116,616
Total equity	95,900	74,369
	Php182,856	Php190,985
Other Financial Data		
Total assets	Php245,663	Php249,713
Property, plant and equipment – net	170,051	176,974
Cash and cash equivalents	18,664	30,064

As at September 30, 2006, our consolidated cash and cash equivalents totaled Php18,664 million. Principal sources of consolidated cash and cash equivalents in the first nine months of 2006 were cash flows from operating activities amounting to Php56,018 million and drawings from Smart's and ePLDT's debt facilities aggregating Php5,011 million. These funds were used principally for capital outlays of Php16,872 million, total debt principal payments of Php23,430 million and investments of Php10,727 million.

Operating Activities

Our consolidated net cash flows from operating activities in the first nine months of 2006 increased by Php907 million, or 2%, to Php56,018 million, from Php55,111 million in the same period in 2005.

A significant portion of our cash flow is generated by our wireless business, which contributed approximately 59% of our service revenues in the first nine months of 2006 and 2005. Revenues from our fixed line and information and communications technology services accounted for 37% and 4%, respectively, of our service revenues in the first nine months of 2006 compared to 39% and 2%, respectively, in the same period in 2005.

Cash flows from operating activities of our wireless business amounted to Php29,206 million in the first nine months of 2006, a decrease of Php2,548 million, or 8%, compared to Php31,754 million in the same period in 2005. Cash flows from operating activities of our fixed line business also decreased to Php16,024 million in the first nine months of 2006, compared to Php22,674 million in the same period in 2005. The overall decrease in our cash flows from operating activities was due to an increase in working capital requirements with the settlement of various current liabilities complemented by higher billings of accounts receivable. Our wireless business segment accounted for 52% of our cash flows from operating activities while our fixed line segment accounted for 29% in the first nine months of 2006. We believe that our continuing strong cash flows from operating activities on a consolidated basis will allow us to defray our current liabilities despite our current ratio being less than 1:1 as at September 30, 2006.

Smart is subject to loan covenants that restrict its ability to pay dividends, redeem preferred shares, make distributions to PLDT or otherwise provide funds to PLDT or any associate without the consent of its lenders. However, Smart has been able to obtain waivers from Finnvera and certain of its lenders for each of the dividend payments made by Smart to PLDT in 2006, 2005, 2004, 2003 and 2002 aggregating Php20,600 million, Php19,717 million, Php16,100 million, Php6,166 million and Php1,540 million, respectively. In September and December 2005, Smart redeemed 200 million and 180.8 million preferred shares, respectively, previously issued to PLDT at a redemption price of Php13.875 per share, or a total redemption price aggregating to Php5,283 million. In addition, Smart redeemed 392 million preferred shares at a total redemption price of Php5,441 million in June 2006. During the first nine months of 2006, dividend payments received from Smart amounted to Php20,600 million, of which Php7,000 million was paid in March 2006, Php7,000 million was paid in June 2006 and Php6,600 million was paid in September 2006.

Investing Activities

Net cash used in investing activities in the first nine months of 2006 amounted to Php25,134 million, an increase of Php20,556 million, or 449%, compared to Php4,578 million in the same period in 2005. This was primarily a result of: (1) an increase in capital expenditures by Php7,316 million; and (2) payments for purchase of investments by Php10,489 million in relation to the purchase of the following in 2006 : (a) a 100% interest in SPi and CyMed aggregating Php8,870 million; (b) the final settlement of the acquisition of Smart Broadband of Php1,201 million; (c) the purchase of a 60% investment in Level Up! of Php381 million; and (d) the acquisition of approximately 25.5% equity interest in Philweb for Php428 million.

Our consolidated capital expenditures in the first nine months of 2006 totaled Php16,872 million, an increase of Php7,316 million, or 77%, from Php9,556 million in the same period in 2005 primarily due to PLDT's, Smart's and ePLDT's higher capital spending. Smart's capital spending of Php9,163 million in the first nine months of 2006 was used to rollout its 3G network, further upgrade its core and transmission network facilities and expand its wireless broadband facilities, to increase capacity and coverage in respect of basic and advanced wireless services. PLDT's capital spending of Php6,881 million was principally used to finance the expansion of its fixed line data and IP-based network services. ePLDT and its subsidiaries' capital spending of Php737 million was primarily used to fund its call center expansion. The balance represented other subsidiaries' capital spending. Consolidated capital expenditures in the same period in 2005 amounted to Php9,556 million, of which Php4,888 million, Php4,143 million and Php473 million were attributable to Smart, PLDT and ePLDT, respectively.

Financing Activities

On a consolidated basis, we used net cash of Php41,763 million for financing activities, net of loan drawings by Smart, in the first nine months of 2006, a decrease of Php3,007 million, or 7%, compared to Php44,770 million in the same period in 2005. The net cash used in financing activities in the first nine months of 2006 was mainly utilized for debt repayments and interest payments by PLDT and Piltel in line with their ongoing debt reduction programs and dividend payments distributed by PLDT to its common and preferred stockholders.

Debt Financing

Additions to our consolidated long-term debt in the first nine months of 2006 totaled Php5,011 million mainly from Smart's drawings related to the financing of its Phase 8 loan facilities. Payments in respect of principal and interest of our total debt amounted to Php23,430 million and Php5,281 million, respectively, in the first nine months of 2006, of which Php14,739 million and Php4,293 million were attributable to PLDT, respectively.

The following table shows our long-term debt, including current portion, as at September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005	Increase (Decrease) Amount	%
	(Unaudited)	(Audited)		
(in millions)				
U.S. Dollar Debt:				
Export Credit Agencies-Supported Loans	Php16,703	Php23,126	(Php6,423)	(28)
Fixed Rate Notes	42,356	52,354	(9,998)	(19)
Term Loans	17,227	14,288	2,939	21
Restructured Loans	3,319	4,767	(1,448)	(30)
Satellite Acquisition Loans	2,245	3,040	(795)	(26)
	81,850	97,575	(15,725)	(16)
Japanese Yen Debt:				
JBIC's Overseas Investment Loan	–	3,139	(3,139)	(100)
Export Credit Agency-Supported Loan	–	709	(709)	(100)
	–	3,848	(3,848)	(100)
Philippine Peso Debt:				
Peso Fixed Rate Corporate Notes	1,578	1,576	2	–
Term Loans	22	166	(144)	(87)
Restructured Loans	268	379	(111)	(29)
	1,868	2,121	(253)	(12)
	Php83,718	Php103,544	(Php19,826)	(19)

For a complete discussion of long-term debt, see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements.

Our long-term debt decreased by Php19,826 million, or 19%, to Php83,718 million as at September 30, 2006 largely due to debt amortizations and prepayments in line with PLDT's efforts to reduce its overall debt level and also due to the appreciation of the peso. PLDT's debt was reduced by 24% to Php55,553 million by September 30, 2006. PLDT repaid in full, all of the outstanding amounts related to its JBIC loan amounting to Php2,385 million in September 2006. In addition, the debt levels of Smart decreased by 4%, to Php25,850 million (including Piltel's debt of Php3,633 million), while Mabuhay and ePLDT decreased by 26% and 58%, to Php2,245 million and Php70 million, respectively, as at September 30, 2006 due to amortizations and prepayments during 2006.

As at September 30, 2006, Smart had several committed dollar-denominated and peso-denominated long-term credit facilities. On July 31, 2006, Smart signed a USD Term Loan Facility for US$44.2 million with Finnish Export Credit Plc to partly finance the related Phase 9 GSM equipment and services contracts. The facility will be drawn on November 10, 2006 for the full amount of US$44.2 million. On August 14, 2006, Smart signed a Peso Term Loan Facility with Metropolitan Bank and Trust Company to finance the related Phase 9 GSM facility for an amount of Php2.5 billion. On October 16, 2006, Smart signed a USD Term Loan Facility with Metropolitan Bank and Trust Company to finance the related Phase 9 GSM Facility for an amount of US$50 million. Please see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements for a detailed discussion of our long-term debt.

The scheduled maturities of our outstanding unaudited consolidated long-term debt at nominal values as at September 30, 2006 are as follows:

Year	US$ Loans		Peso Loans	Total
2006(1)	US$104	Php5,250	Php1,049	Php6,299
2007	318	15,965	11	15,976
2008	139	6,978	–	6,978
2009	294	14,756	–	14,756
2010	63	3,150	810	3,960
2011 and onwards	836	42,016	–	42,016
	US$1,754	Php88,115	Php1,870	Php89,985

(1) October 1, 2006 through December 31, 2006.

Approximately Php47,969 million principal amount of our consolidated outstanding long-term debt as at September 30, 2006 is scheduled to mature over the period from 2006 to 2010. Of this amount, Php28,494 million was attributable to PLDT, Php17,161 million to Smart (including Piltel's debt of Php3,633 million) and the remainder to Mabuhay Satellite, Maratel and ePLDT.

In addition to Piltel's voluntary prepayment of its loan facilities in June 2006, Piltel submitted another voluntary prepayment notice for the remaining balance of its restructured debt on October 25, 2006. The prepayment is anticipated to be completed on December 4, 2006 and, as such, all of Piltel's restructured debt were recognized as current and payable in 2006.

Debt Covenants

Our debt instruments contain restrictive covenants, including covenants that could prohibit us from paying dividends on common stock under certain circumstances, and require us to comply with specified financial ratios and other financial tests, calculated in conformity with accounting principles generally accepted in the Philippines, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

Please see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements for a detailed discussion of our covenants.

Financing Requirements

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

Since 2002, we have been utilizing internally generated cash, particularly from our cellular business, to reduce our overall level of indebtedness. In line with this objective, we have managed our capital expenditures, reduced our investments and suspended dividend payments to common shareholders from April 2001. As a result of our improving cash flows and reduced debt levels, we restored the payment of dividends in May 2005 and currently intend to gradually increase our dividend payout ratio in succeeding years as we improve our leverage ratios. For 2006, we are targeting a dividend payout ratio of 60% which we intend to increase to 70% in 2007.

Credit Ratings

None of our existing indebtedness contains provisions under which credit rating downgrades would trigger a default, changes in applicable interest rates or other similar terms and conditions.

PLDT's current credit ratings are as follows:

Rating Agency	Credit Rating		Outlook
Standard and Poor's	Foreign Currency Senior Unsecured Debt Rating	BB+	Stable
Moody's Investor Service	Foreign Currency Senior Unsecured Debt Rating	Ba2	Stable
	Local Currency Corporate Family Rating	Baa3	Positive
Fitch	Long-term Foreign Currency Rating	BB	Stable
	Long-term Local Currency Rating	BB+	Stable
	Long-term Foreign Currency Issuer Default Rating	BB+	Stable
	Long-term Local Currency Issuer Default Rating	BBB-	Positive
	National Long-term Rating	AAA(ph1)	Stable

On November 3, 2006, Moody's affirmed PLDT's Ba2 senior unsecured foreign currency rating and changed its outlook to stable from negative. The rating action was prompted by the change in outlook on the Philippines Ba3 country ceiling for foreign currency bonds to stable from negative. On July 18, 2006, Moody's upgraded PLDT's local currency corporate family rating from Ba1 to Baa3 with a positive outlook. The upgrade has been prompted by continued improvements in PLDT's credit profile, that it enjoys a lowly geared balance sheet, 65% share in revenue terms of the market where only one major competitor is present and has sufficient flexibility to be able to invest its free cash flows into upgrading its technology base.

On August 18, 2006, Fitch upgraded PLDT's long-term foreign currency IDR to "BB+" from "BB" with a stable outlook, at the same time upgrading PLDT's global bonds and senior notes to "BB+" from "BB" and affirmed PLDT's long-term local currency IDR of "BBB-" with a positive outlook. Following the licensing of Fitch to provide National ratings in the Philippines, Fitch assigned PLDT a National long-term rating of "AAA(ph1)" with a stable outlook. The ratings action follows Fitch's announcement that it has upgraded the Country Ceiling on the Republic of the Philippines to "BB+" from "BB."

On August 30, 2006, Standard & Poor's Ratings Services affirmed its 'BB+' foreign currency rating on PLDT with stable outlook. At the same time, the rating on PLDT's Series III Preferred Stock has been withdrawn as the preferred stock have been fully converted into common equity. The rating reflects PLDT's leading market position and its improving financial profile.

Equity Financing

PLDT raised Php57 million and Php255 million from the exercise by certain officers and executives of stock options in the first nine months of 2006 and 2005, respectively. In addition, through our subscriber investment plan, or SIP, which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% cumulative convertible preferred stock as part of the upfront payments collected from subscribers, PLDT was able to raise Php2 million in the first nine months of 2006 and 2005.

Cash dividend payments in the first nine months of 2006 amounted to Php14,847 million, of which Php14,446 million and Php401 million were paid to common and preferred shareholders, respectively, compared to Php6,989 million, of which Php5,962 million and Php1,027 million were paid to common and preferred shareholders, respectively, in the same period in 2005.

The following table sets forth dividend payments on shares of PLDT's common stock for the year 2005 and for the nine months ended September 30, 2006:

	Date			Amount	
Class	**Declaration**	**Record**	**Paid**	**Per Share**	**Total**
Common Stock	March 1, 2005	March 31, 2005	May 12, 2005	Php14.00	Php2,384
	May 5, 2005	June 3, 2005	July 14, 2005	21.00	3,598
	November 8, 2005	November 28, 2005	December 28, 2005	21.00	3,642
	February 27, 2006	March 20, 2006	April 20, 2006	28.00	5,059
	August 8, 2006	August 21, 2006	September 21, 2005	50.00	9,346

As at September 30, 2006, there were 188,008,846 PLDT common shares outstanding.

Contractual Obligations and Commercial Commitments

Contractual Obligations

The following table discloses our consolidated contractual obligations outstanding as at September 30, 2006:

	Payments Due by Period				
	Total	Within 1 year	2–3 years	4–5 years	After 5 years
			(Unaudited)		
(in millions)					
Long-term debt (1)	Php89,985	Php19,625	Php22,539	Php6,107	Php41,714
Long-term lease obligations:					
Operating lease	3,553	607	1,093	861	992
Capital lease	1,617	1,024	148	18	427
Unconditional purchase obligations(2)	10,327	5,052	2,010	2,010	1,256
Other long-term obligations	2,424	–	2,424	–	–
Total contractual obligations	Php107,906	Php26,307	Php28,214	Php8,996	Php44,389

(1) Before deducting unamortized debt discount and debt issuance costs.

(2) Based on the original Air Time Purchase Agreement with AIL.

Long-term Debt

For a discussion of our long-term debt, see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements.

Long-term Operating Lease Obligations

Digital Passage Service Contracts. PLDT has existing Digital Passage Service Contracts with foreign telecommunication administrations for several dedicated circuits to various destinations for ten to 25 years expiring at various dates. As at September 30, 2006, PLDT's aggregate remaining obligation under these contracts amounted to approximately Php9 million.

License Agreement with Mobius Management Systems (Australia) Pty Ltd., or Mobius. PLDT entered into a license agreement with Mobius pursuant to which Mobius has granted PLDT a non-exclusive, non-assignable and non-transferable license for the use of computer software components. Under this agreement, Mobius is also required to provide maintenance services for a period of one year at no additional maintenance charge. PLDT may purchase maintenance services upon expiration of the first year for a fee of 15% of the current published license fee. As at September 30, 2006, PLDT's aggregate remaining obligation under this agreement was approximately Php10 million.

Other Long-term Operating Lease Obligations. The PLDT Group has various long-term lease contracts for periods ranging from two to ten years covering certain offices, warehouses, cell sites, telecommunication equipment locations and various office equipment. In particular, Smart has lease obligations aggregating Php3,152 million as at September 30, 2006 in respect of office and cell site rentals with over 3,000 lessors nationwide, PLDT has lease obligations aggregating Php102 million as at September 30, 2006, ePLDT has lease obligations aggregating Php272 million as at September 30, 2006 in respect of certain office space rentals and PLDT Global has lease obligations aggregating Php8 million as at September 30, 2006 in respect of certain office space rentals.

Long-term Capital Lease Obligations

For a discussion of our long-term capital lease obligations, see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements.

Unconditional Purchase Obligations

Air Time Purchase Agreement with AIL. PLDT is a party to a Founder NSP, or National Service Provider, Air Time Purchase Agreement entered into with ACeS International Limited, or AIL, in March 1997, which was amended in December 1998, under which PLDT was granted the exclusive right to sell AIL services in the Philippines. In exchange, the Air Time Purchase Agreement required PLDT to purchase from AIL a minimum of US$5 million worth of air time annually over ten years commencing on January 1, 2002, the purported date of commercial operations of the Garuda I Satellite.

In the event that AIL's aggregate billed revenue is less than US$45 million in any given year, the Air Time Purchase Agreement also states that PLDT has to make supplemental air time purchase payments not to exceed US$15 million per year during the ten-year term.

PLDT and the other founder NSPs are endeavoring to amend the Air Time Purchase Agreement due to the occurrence of partial satellite loss, changes in the primary business of ACeS and other events affecting the business.

In March 2003, PLDT, together with the other founder NSPs, entered into a Standstill Agreement with AIL suspending the application and enforcement of the minimum and supplemental air time payments under the original Air Time Purchase Agreement. The parties agreed that AIL shall provide PLDT and the other founder shareholders with unlimited use of air time for the year 2003 in exchange for a fixed fee in the amount of US$3.8 million for PLDT. Moreover, PLDT was also obliged to purchase from AIL 13,750 satellite phone units in 2003 at US$395 F.O.B. per unit, subject to quarterly price adjustments. The parties to the Standstill Agreement also agreed to negotiate in good faith and use their best efforts to reach an agreement on a revised Air Time Purchase Agreement before November 15, 2003 that would cover, among other things, the amended minimum and supplemental air time payment provisions subject to the approval of AIL's creditors.

On February 10, 2004, notwithstanding the ongoing negotiations, AIL advised PLDT of the termination of the Standstill Agreement and the reinstatement of the terms under the original Air Time Purchase Agreement effective January 1, 2002 following the lapse of the November 15, 2003 deadline set in the Standstill Agreement for the negotiation of a revised Air Time Purchase Agreement. Negotiations are continuing with the relevant parties towards an amicable settlement of this matter. See *Note 20 – Related Party Transactions* and *Note 23 – Provisions and Contingencies* to the accompanying unaudited consolidated financial statements for further details relating to the Air Time Purchase Agreement with AIL.

As at September 30, 2006, PLDT's aggregate remaining minimum obligation under the original Air Time Purchase Agreement was approximately Php10,327 million.

Other Long-term Obligations

Mandatory Conversion and Purchase of Shares. As discussed in *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements, PLDT had issued a total of 3 million shares of Series V Convertible Preferred Stock, 5 million shares of Series VI Convertible Preferred Stock and 4 million shares of Series VII Convertible Preferred Stock in exchange for a total of 58 million shares of Series K Class I Convertible Preferred Stock of Piltel, pursuant to the debt restructuring plan of Piltel adopted in June 2001.

Each share of Series V, VI and VII Convertible Preferred Stock is convertible at any time at the option of the holder into one PLDT common share. On the date immediately following the seventh anniversary of the issue date of the Series V and Series VI Convertible Preferred Stocks and on the eighth anniversary of the issue date of the Series VII Convertible Preferred Stock, the remaining outstanding shares under these series will be mandatorily converted to PLDT common shares. Under a put option exercisable for 30 days, holders of common shares received on mandatory conversion of the Series V, VI and VII Convertible Preferred Stocks will be able to require PLDT to purchase such PLDT common shares for Php1,700 per share, US$36.132 per share, and JP¥4,071.89 per share, respectively.

As at September 30, 2006, 2,675,393 shares of Series V Convertible Preferred Stock and 4,003,361 shares of Series VI Convertible Preferred Stock and all 3,842,000 shares of Series VII Convertible Preferred Stock had been converted to PLDT common shares. As at September 30, 2006, 46,047 shares of Series V and 1,291,743 shares of Series VI Convertible Preferred Stocks remained outstanding. The aggregate value of the put option based on outstanding shares as at September 30, 2006 was Php2,424 million, which is puttable on June 4, 2008, if all of the outstanding shares of Series V and VI Convertible Preferred Stocks were mandatorily converted and all the underlying shares of common stock were put to PLDT. The market value of the underlying shares of common stock was Php3,037 million, based on the market price of PLDT common shares of Php2,270 per share as at September 30, 2006.

Please refer to *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements for further discussion.

Commercial Commitments

As at September 30, 2006, our outstanding commercial commitments, in the form of letters of credit, amounted to Php1,361 million. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

Our operations are exposed to various risks, including liquidity risk, foreign exchange risk and interest rate risk. The importance of managing these risks has significantly increased in light of considerable change and continuing volatility in both the Philippine and international financial markets. With a view to managing these risks, we have incorporated financial risk management functions in our organization, particularly in our treasury operations and equity issues and sales of certain assets.

Liquidity Risk Management

We seek to manage our liquidity profile to be able to finance our capital expenditures and service our maturing debts. To cover our financing requirements, we intend to use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flow information and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities, and debt capital and equity market issues.

Foreign Exchange Risk Management

As at September 30, 2006, the Philippine peso had appreciated by 5% against the U.S. dollar to Php50.249 to US$1.00 from Php53.062 to US$1.00 as at December 31, 2005. As at September 30, 2005, likewise, the peso appreciated by 1% to Php55.977 to US$1.00 from Php56.341 to US$1.00 as at December 31, 2004. The revaluation of our foreign-currency denominated assets and liabilities is recognized as foreign exchange gains or losses as at balance sheet date. Since substantially all of our indebtedness is denominated in U.S. dollars, the appreciation or depreciation of the Philippine peso results in the recognition of foreign exchange gains or losses. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt we carry. As at September 30, 2006, consolidated foreign currency debt-denominated amounted to Php81,850 million, a reduction from Php101,423 million last December 31, 2005. As such, we recognized foreign exchange gains of Php1,601 million and Php1,779 million in the first nine months of 2006 and 2005, respectively.

While a certain percentage of our revenues is either linked to or denominated in U.S. dollars, substantially all of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars.

As at September 30, 2006, approximately 98% of our total consolidated debts were denominated in foreign currencies, principally in U.S. dollars. Thus, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase both the principal amount of our unhedged foreign currency-denominated debts (representing 50% of our consolidated debts, or 38% net of our U.S. dollar cash balances as at September 30, 2006), and interest expense on our debt in peso terms. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks, stabilize cash flows, and improve investment and cash flow planning, we enter into forward foreign exchange contracts, foreign currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. However, these hedges do not cover all of our exposure to foreign exchange risks.

Specifically, we use forward foreign exchange contracts, foreign currency swap contracts and currency option contracts to manage the foreign currency risk associated with our foreign currency-denominated loans. In order to manage hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of currency option contracts, and fixed to floating coupon only swap agreements. Accounted as either cash flow hedges or transactions not designated as hedges, changes in the fair value of these instruments are recognized as cumulative translation adjustments in equity until the hedged item is recognized directly as income or expense for the period. As at September 30, 2006, PLDT's outstanding forward foreign exchange contracts, principal-only long-term cross-currency swap contracts and currency option contracts amounted to US$143 million; US$550 million; and US$175 million, respectively. Smart has no outstanding forward foreign exchange contracts as at September 30, 2006.

For further discussions of these contracts, see *Note 24 – Financial Assets and Liabilities – Derivative Financial Instruments* to the accompanying unaudited consolidated financial statements.

Interest Rate Risk Management

On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. As at September 30, 2006, PLDT's outstanding interest rate swap contracts amounted to US$63 million. For further discussions of these contracts, see *Note 24 – Financial Assets and Liabilities – Derivative Financial Instruments* to the accompanying unaudited consolidated financial statements.

We make use of hedging instruments and structures solely for reducing or managing financial risks associated with our liabilities and not for trading or speculative purposes.

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. In recent periods, we do not believe inflation has had a material impact on our operations. The average inflation rate in the Philippines in the first nine months of 2006 was 6.8%, compared to 7.9% in the same period in 2005.

OTHER INFORMATION

ePLDT acquired an additional stake in Philweb

On October 2, 2006, ePLDT acquired an additional 8,037,692,308 shares of Philweb at Php0.026 per share for an aggregate amount of Php209 million. This represents an additional 6.2% of the outstanding shares of Philweb, raising ePLDT's equity interest to 25.5%. Philweb is primarily engaged in Internet-based gaming, with agreements for Internet sports betting and Internet casino with the Philippine Amusement and Gaming Corporation. The investment will enable ePLDT to gain a firm hold on legitimate gaming content for PLDT group's mobile business as well as its wired and wireless broadband services.

SPi acquired 100% of CyMed, Inc., or CyMed

On August 11, 2006, ePLDT, through its subsidiary SPi, acquired 100% of CyMed for an aggregate amount of US$35 million inclusive of certain debt obligations. CyMed currently provides medical transcription services and has been recognized by numerous industry and community associations for superior business operations and profitable growth and positions SPi as the third largest company in the outsourced medical transcription industry.

Related Party Transactions

Cooperation Agreement with the First Pacific and certain affiliates, or FP Parties, NTT Communications and DoCoMo

In connection with the transfer by NTT Communications Corporation, or NTT Communications, of approximately 12.6 million shares of PLDT's common stock to NTT DoCoMo, Inc, or DoCoMo, pursuant to the Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and DoCoMo, the First Pacific Company Limited and certain affiliates, or FP Parties, NTT Communications and DoCoMo entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated

September 28, 1999, as amended and the Shareholders Agreement dated March 24, 2000, to DoCoMo, including:

- certain contractual veto rights over a number of major decisions or transactions; and

- rights relating to the representation on the board of directors of PLDT and Smart, respectively, and any committees thereof.

Key provisions of the Cooperation Agreement pertain to, among other things: restriction on ownership of shares of PLDT by NTT Communications and DoCoMo, limitation on competition, business cooperation, additional rights of DoCoMo, change in control and termination. Please see *Note 20 – Related Party Transactions* to the accompanying unaudited consolidated financial statements for further details.

Integrated i-mode Services Package Agreement between DoCoMo and Smart – the Integrated i-mode Service Package Agreement was entered into by Smart and DoCoMo on February 15, 2006, under which DoCoMo agreed to grant Smart, on an exclusive basis within the territory of the Philippines for a period of five years, an integrated i-mode service package including non-transferable license to use the licensed materials and the i-mode brand, as well as implementation support and assistance and post-commercial launch support from DoCoMo. Pursuant to this agreement, Smart is required to pay an initial license fee and running royalty fees based on the revenue arising from i-mode subscription fees and data traffic. The initial license fee paid as at September 30, 2006 amounted to US$1 million or Php53 million.

Advisory Services Agreement between DoCoMo and PLDT – the Advisory Services Agreement was entered into by DoCoMo and PLDT on June 5, 2006, in accordance with the Cooperation Agreement between PLDT and DoCoMo. Pursuant to the agreement, DoCoMo will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, the agreement governs the terms and conditions of the appointments and the corresponding fees related thereto.

Other Agreements with NTT Communications and/or its Affiliates — agreements under which (1) NTT Communications provides advisory services for various business areas of PLDT; (2) PLDT is licensed to market managed data and other services using NTT Communications' Arcstar brand; and (3) PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunication services. Total fees under these agreements totaled Php144 million and Php185 million for the nine months ended September 30, 2006 and 2005, respectively. PLDT's outstanding obligations under these agreements amounted to Php19 million and Php23 million as at September 30, 2006 and December 31, 2005, respectively.

Agreements between Smart and Asia Link B.V. — agreements under which Asia Link undertakes to provide technical support services and assistance in the operations and maintenance of Smart's cellular business. Total fees under these agreements totaled Php398 million and Php383 million for the nine months ended September 30, 2006 and 2005, respectively. Outstanding obligations of Smart under the Technical Service Agreement amounted to Php154 million and Php194 million as at September 30, 2006 and December 31, 2005, respectively. Asia Link is a subsidiary of the First Pacific Group.

Agreements relating to insurance companies — Gotuaco del Rosario and Associates, or Gotuaco, acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. In addition, PLDT has an insurance policy with Malayan Insurance Co., Inc., or Malayan, wherein premiums are directly paid to Malayan. Total insurance expenses paid under these agreements amounted to Php283 million and Php386 million for the nine months ended September 30, 2006 and 2005, respectively. Two directors of PLDT have a direct/indirect interest in or serve as a director/officer of Gotuaco and Malayan.

For a more detailed discussion of the related party transactions enumerated above, see *Note 20 – Related Party Transactions* to the accompanying unaudited consolidated financial statements.

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: November 7, 2006