PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 6-K
November 05, 2002

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Nine Months Ended September 30, 2002

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 to the accompanying financial statements for a list of these subsidiaries and 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 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.

The financial information appearing in this report and in the accompanying 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; and all references to Japanese yen, JP¥ or ¥ are to the lawful currency of Japan. Translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying financial statements were made based on the exchange rate of Php52.41 = US$1.00, the volume weighted average exchange rate at September 30, 2002 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 assumed facts or bases almost always vary from actual results, and the differences between 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 keep in mind that any forward-looking statement made by us in this report or *elsewhere speaks only as of 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.*

On June 4, 2001, Pilipino Telephone Corporation, or Piltel, completed the restructuring of approximately Php41.1 billion of indebtedness and other claims, representing approximately 98% of its total liabilities as of that date. Under the terms of Piltel's debt restructuring plan, PLDT is not permitted to demand or receive any payment, redemption or distribution in respect of any present or future liability owed by Piltel to PLDT or any affiliate until all amounts owed to participating creditors have been paid or discharged, except for payments due in respect of transactions having arm's-length terms. These severe long-term restrictions significantly impair the ability of Piltel to transfer funds to PLDT. In addition, PLDT is subject to contractual restrictions on the amount of financial support it can provide to Piltel under the PLDT letter of support issued in connection with Piltel s debt restructuring. On June 27, 2001, PLDT transferred 208 million common shares of Piltel, representing approximately 12.3% of Piltel's outstanding common shares, to financial advisors of Piltel to settle part of their fees in connection with the debt restructuring. As a result, our ownership of Piltel's outstanding common stock decreased from 57.6% to approximately 45.3%. Piltel ceased to be treated as a consolidated subsidiary effective June 27, 2001. Accordingly, Piltel's financial position and results of operations are excluded from our consolidated balance sheets as of September 30, 2002 (unaudited) and December 31, 2001(audited) and unaudited consolidated statements of income, changes in stockholders equity and cash flows for the nine months ended September 30, 2002. Our unaudited consolidated statements of income, changes in stockholders equity and cash flows for the nine months ended September 30, 2001 only include proportionately Piltel's results of operations up to June 27, 2001. For a more detailed discussion of the Piltel debt restructuring and the accounting treatment of Piltel, see Notes 2 and 7 to the accompanying financial statements.

Financial Highlights

(in million pesos, except where otherwise indicated)	September 30, 2002 (unaudited)	December 31, 2001 (audited)
Consolidated Balance Sheets		
Total assets	305,040.5	307,622.3
Property, plant and equipment - net	252,201.5	256,477.0
Total debt	171,052.6	175,358.7
Total stockholders equity	91,765.3	88,627.6
Debt to equity ratio	1.86x	1.98x
	Nine Months Ended September 30,	
	2002	**2001**
	(unaudited)	
Consolidated Statements of Income		
Operating revenues	58,929.2	53,583.7
Operating expenses	43,975.6	41,242.8
Net operating income	14,953.6	12,340.9
EBIT(1)	16,292.7	13,022.4
EBITDA(2)	34,156.7	29,421.0
Net income	4,156.2	2,381.8
Operating margin	25.4%	23.0%
EBITDA margin	58.0%	54.9%
Consolidated Statements of Cash Flows		
Net cash provided by operating activities	40,418.6	25,905.0
Net cash used in investing activities	11,830.9	20,867.8
Capital expenditures	11,107.9	19,650.6
Net cash used in financing activities	25,500.5	10,270.3

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(1) EBIT is defined as earnings before minority interest in net earnings (losses) of consolidated subsidiaries, adding back interest expense and related items and taxes. EBIT should not be considered in isolation or as a substitute for operating income, net income, cash flows from operating activities and other income or cash flow statement data prepared in accordance with generally accepted accounting principles, or as a measure of profitability or liquidity.

(2) EBITDA is defined as earnings before minority interest in net earnings (losses) of consolidated subsidiaries, adding back interest expense and related items, taxes, depreciation and amortization and is presented because it is generally accepted as providing useful information regarding a company's ability to service and/or incur debt. EBITDA should not be considered in isolation or as a substitute for operating income, net income, cash flows from operating activities and other income or cash flow statement data prepared in accordance with generally accepted

accounting principles, or as a measure of profitability or liquidity.

EBIT and EBITDA on a consolidated basis for the nine months ended September 30, 2002 and 2001 are derived as follows:

	Nine Months Ended September 30,	
	2002	**2001**
	(in million pesos)	
Earnings before minority interest in net earnings (losses) of consolidated subsidiaries(a)	4,135.9	676.5
Add: Interest expenses and related items, net of capitalized interest(b)	10,693.2	11,225.1
Provision for income tax(a)	1,463.6	1,120.8
EBIT	16,292.7	13,022.4
Add: Depreciation and amortization(a)	17,864.0	16,398.6
EBITDA	34,156.7	29,421.0

(a) See Statements of Income of the accompanying financial statements.

(b) See Note 15 to the accompanying financial statements.

Overview

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

- *Fixed Line* fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT s affiliate Piltel and PLDT s subsidiaries PLDT Clark Telecom, Inc., Subic Telecommunications Company, Inc., and Maranao Telephone Company, Inc., which together account for approximately 1% of our consolidated fixed lines in service, and PLDT Global Corporation;

- *Wireless* wireless telecommunications services provided through our cellular service providers, namely PLDT s subsidiary Smart Communications, Inc. and PLDT s affiliate Piltel, and satellite operators, namely PLDT s subsidiaries Mabuhay Philippines Satellite Corporation, ACeS Philippines Cellular Satellite Corporation, and Telesat, Inc.; 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., Internet access services provided by ePLDT s subsidiary Infocom Technologies, Inc., and e-commerce, call centers and IT-related services provided by other subsidiaries and affiliates of ePLDT, as described in Note 7 to the accompanying financial statements.

Results of Operations

The following table shows the contribution by each of our business segments to our consolidated operating revenues, operating expenses and net operating income (loss) for the nine months ended September 30, 2002 and 2001. Most of our revenues are derived from the Philippines. Our revenues derived from outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.

	Nine Months Ended September 30,			
	2002	**%(1)**	**2001**	**%(1)**
	(in million pesos, except percentages)			
Operating Revenues				
Fixed line	33,929.5	57.6	35,846.9	66.9
Wireless	24,376.5	41.4	17,408.6	32.5
Information and communications technology	623.2	1.0	328.2	0.6
	58,929.2	100.0	53,583.7	100.0
Operating Expenses				
Fixed line	23,989.6	40.7	25,039.5	46.7
Wireless	19,044.0	32.3	15,688.8	29.3
Information and communications technology	942.0	1.6	514.5	1.0
	43,975.6	74.6	41,242.8	77.0
Net Operating Income (Loss)				
Fixed line	9,939.9	16.9	10,807.4	20.2
Wireless	5,332.5	9.1	1,719.8	3.2
Information and communications technology	(318.8)	(0.6)	(186.3)	(0.4)
	14,953.6	25.4	12,340.9	23.0

(1) Operating expenses and net operating income (loss) are computed as a percentage of operating revenues.

Consolidated Operating Revenues

Our consolidated operating revenues for the first nine months of 2002 increased by Php5,345.5 million, or 10.0%, to Php58,929.2 million from Php53,583.7 million for the same period in 2001 largely as a result of the continued strong growth of our wireless business. Smart contributed Php23,722.8 million in revenues for the first nine months of 2002, an increase of 50.7% from the Php15,742.6 million it contributed for the first nine months of 2001. Smart s revenue contribution from its cellular operations accounted for 40.3% of our consolidated operating revenues for the first nine months of 2002, compared to 29.4% for the same period in 2001.

Fixed Line

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Total revenues from our fixed line business decreased by Php1,917.4 million, or 5.3%, to Php33,929.5 million in the first nine months of 2002 from Php35,846.9 million in the same period in 2001. The decrease was attributable to the general decline in revenues from fixed line business segments, except revenues from data and other network services, and the deconsolidation of Piltel, which contributed Php455.5 million in fixed line revenues in the first half of 2001. As a percentage of our consolidated operating revenues, fixed line revenues also decreased to 57.6% in the first nine months of 2002 from 66.9% in the same period in 2001 brought about by the strong growth of our wireless business.

The following table summarizes our consolidated operating revenues from our fixed line business for the nine months ended September 30, 2002 and 2001 by service segment:

	Nine Months Ended September 30,			
	2002	**%**	**2001**	**%**
	(in million pesos, except percentages)			
Fixed line services:				
Local exchange	15,936.2	47.0	16,428.2	45.8
International long distance	7,804.3	23.0	9,016.1	25.2
National long distance	5,836.8	17.2	6,559.0	18.3
Data and other network	4,125.8	12.2	3,516.9	9.8
Miscellaneous	226.4	0.6	326.7	0.9
Total	33,929.5	100.0	35,846.9	100.0

Local Exchange Service

Our local exchange service revenues consist of:

- flat monthly fees for our billed service;

- installation charges and other one-time fees associated with the establishment of customer service;

- fixed charges paid by other telephone companies, charges retained by PLDT for calls terminating to cellular subscribers within the local area, and local access charges paid by cellular operators for calls by cellular subscribers that terminate to our local exchange network;

- proceeds from sales of prepaid call cards (gross of commissions and discounts given to dealers, which are recorded as selling and promotion expenses) and calls from payphones and coin-operated phones; and

- charges for special features, including bundled value-added services such as *call waiting*, *call forwarding*, *3-party conference calling* and *Caller ID*.

The following table summarizes key measures of our local exchange service business segment as of and for the nine months ended September 30, 2002 and 2001:

	Nine Months Ended September 30,	
	2002	**2001**
Consolidated local exchange revenues (in million pesos)	15,936.2	16,428.2
Number of fixed lines in service		
PLDT Group	2,153,798	2,098,536
PLDT(1)	2,128,396	2,078,865
Number of PLDT employees	12,584	12,940
Number of PLDT fixed lines in service per PLDT employee	169	161

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(1) Approximately 88% and 96% were postpaid fixed line subscribers as of September 30, 2002 and 2001, respectively.

Revenues from our local exchange service for the first nine months of 2002 decreased by Php492.0 million, or 3.0%, to Php15,936.2 million from Php16,428.2 million for the same period in 2001. The decrease was mainly due to the effects of the deconsolidation of Piltel, which contributed local exchange revenues of Php300.8 in the first six months of 2001, and a shift in subscriber preference from postpaid to prepaid services that generate lower average revenue per subscriber. Partially offsetting these two factors were the combined effects of a slight increase in our monthly local service rates resulting from currency-related rate adjustments and an increase in subscription to our bundled value-added services. As a percentage of our total fixed line revenues, local exchange service revenues increased to 47.0% in the first nine months of 2002 from 45.8% in the same period in 2001.

Gross additions to PLDT's fixed lines in service in the first nine months of 2002 totaled 405,703, which was 15.3% higher than the 351,887 gross additions for the same period in 2001. On a net basis, PLDT s fixed line additions in the first nine months of 2002 totaled 53,287, which was 67.3% lower compared to the net additions of 162,880 in the first nine months of 2001. While fixed line additions totaled 114,699 for our prepaid fixed line services, particularly *Teletipid* and *Telesulit*, postpaid fixed lines declined by 61,412 in the first nine months of 2002.

Launched in 2000, *Teletipid* was initially intended as an affordable alternative telephone service for consumers under difficult economic conditions. In 2001, *Teletipid* became part of PLDT's overall churn and credit risk exposure management and subscriber retention efforts. *Teletipid* phone kits, each containing Php300 worth of pre-stored call credits, are sold for Php1,700 per unit. Prior to May 1, 2002, *Teletipid* subscribers were charged based on usage at a rate of Php0.50 per minute for local calls and at the same rates applicable to postpaid fixed line subscribers for national and international long distance calls. Effective May 1, 2002, the local call rate was increased to Php1.00 per minute, but the national and international long distance call rates remained unchanged.

In February 2002, PLDT launched a premium variant to *Teletipid* under the brand name *Telesulit*. *Telesulit* phone kits, each containing Php500 worth of pre-stored call credits, are sold for Php1,900 per unit. The local call rate for *Telesulit* is Php0.75 per minute, while the national and international long distance rates are the same as those applicable to *Teletipid* and postpaid fixed line subscribers. A *Teletipid* subscriber migrating to *Telesulit* will be able to retain the same telephone number.

As of September 30, 2002, PLDT s active prepaid fixed line subscribers totaled 259,201, of which 129,801 were *Teletipid* subscribers and 129,400 were *Telesulit* subscribers. Approximately 70% of *Teletipid* subscribers were new subscribers and the remaining 30% were migrated subscribers from PLDT s postpaid fixed line service instead of being disconnected from the service for non-payment of bills, while approximately 59% of *Telesulit* subscribers were new subscribers and the remaining 41% were previously postpaid fixed line subscribers. As of September 30, 2002, prepaid fixed line subscribers represented approximately 12% of PLDT s total fixed lines in service.

A prepaid fixed line subscriber is recognized as a 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 Php300 in the case of *Teletipid* and Php500 in the case of *Telesulit*. Reloads are valid for two months. A prepaid fixed line subscriber is disconnected if that subscriber does not reload within four months for *Teletipid* and within one month for *Telesulit* after the expiry of the last reload. Revenues from the sale of prepaid cards are recognized when sold to dealers or directly to consumers through PLDT's business offices. All sales of prepaid *Teletipid* and *Telesulit* cards, whether through dealers or through PLDT's business offices, are on a non-refundable basis.

Pursuant to a currency exchange rate adjustment mechanism authorized by the Philippine National Telecommunications Commission, or the NTC, we increase or decrease our monthly local service rates by 1% for every Php0.10 change in the peso-to-dollar exchange rate relative to a base rate of Php11.00 = US$1.00. We increase our local exchange service rates after giving 15 days' prior notice to the NTC following a depreciation of the peso; conversely, we decrease our local exchange service rates immediately following an appreciation of the peso. Under this mechanism, we implemented six downward adjustments and seven upward adjustments in our monthly local service rates during the first nine months of 2002, compared to eight upward adjustments and four downward adjustments during the same period in 2001. The average peso-to-dollar rate in the first nine months of 2002 was Php51.134 = US$1.00, compared to the average of Php50.781 = US$1.00 in the first nine months of 2001. This change in the average peso-to-dollar rate corresponded to a peso depreciation of 0.7%, which resulted in a 0.6% average net increase in our monthly local service rates, thus contributing to the increase in our local exchange revenues.

To attract new fixed line subscribers and retain existing ones, PLDT has introduced additional value-added products and services such as *Caller ID* and *tXt 135*. *Caller ID* allows subscribers to identify callers by telephone number, and it is now bundled at special rates with other value-added phone services, such as *call waiting*, *call forwarding*, *3-party conference calling* and *speed calling*. *tXt 135* allows one-way text messaging from PLDT fixed lines to Smart and Piltel GSM handsets and is capable of international text messaging. PLDT intends to launch a full two-way text messaging service in 2003.

The ratio of PLDT fixed lines in service per PLDT employee improved from 161 at September 30, 2001 to 169 at September 30, 2002 due to the increase in PLDT's fixed lines in service and the reduction of PLDT's workforce. During the 12 months ended September 30, 2002, PLDT's workforce was reduced by 356 employees, or 2.8%, mainly as a result of PLDT s ongoing manpower reduction program.

International Long Distance Service

International long distance revenues generated through our international gateway facilities consist of:

- inbound call revenues representing settlements from foreign telecommunications carriers for inbound international calls;

- 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 long distance business for the nine months ended September 30, 2002 and 2001:

	Nine Months Ended September 30,	
	2002	**2001**
Consolidated international long distance revenues (in million pesos)	7,804.3	9,016.1
Inbound	6,158.0	7,105.8
Outbound	1,646.3	1,910.3
International call volumes (in million minutes)		
PLDT Group(1)	1,888.4	2,042.4
Inbound	1,758.0	1,920.0
Outbound	130.4	122.4
Inbound-outbound call ratio	13.5:1	15.7:1
PLDT	1,729.3	1,864.8
Inbound	1,601.7	1,744.9
Outbound	127.6	119.9
Inbound-outbound call ratio	12.6:1	14.6:1

(1) Excludes cellular call volumes.

Our consolidated international long distance revenues decreased by Php1,211.8 million, or 13.4%, to Php7,804.3 million in the first nine months of 2002 from Php9,016.1 million in the same period in 2001 primarily because of lower inbound call volumes. Our international long distance revenues as a percentage of total fixed line revenues also decreased to 23.0% in the first nine months of 2002 from 25.2% in the same period in 2001.

Our revenues from inbound international long distance calls for the first nine months of 2002 decreased by Php947.8 million, or 13.3%, to Php6,158.0 million, principally due to the combined effects of continued declines in the average international settlement rates and lower call volumes, partially offset by the positive impact of the depreciation of the average value of the peso relative to the U.S. dollar.

Our inbound international long distance call volumes decreased by 8.4% to 1,758.0 million minutes in the first nine months of 2002 from 1,920.0 million minutes in the first nine months of 2001 due to:

- increasing competition from alternative, more economical means of long distance communications, particularly e-mail, international text messaging and Internet telephony;

- more inbound calls terminating directly to cellular subscribers;

- our policy requiring certain second and third tier international carriers to prepay in order for us to accept their incoming traffic. Although this policy had a negative impact on our inbound international long distance revenues in the first nine months of 2002, we expect that this will help us achieve a more stable revenue base and control uncollectible accounts over the longer term; and

- the bankruptcy of certain foreign operators.

The depreciation of the peso increased our inbound international long distance revenues in peso terms because 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 prevailing exchange rates at the time of billing.

Our revenues from outbound international long distance calls for the first nine months of 2002 declined by Php264.0 million, or 13.8%, to Php1,646.3 million, primarily due to reductions in our average international direct dialing, or IDD, rates and charges for operator-assisted calls, partially offset by higher call volumes and the positive effect of the depreciation of the average value of the peso against the U.S. dollar. Effective February 2001, PLDT reduced its IDD rates from US$0.49 per minute for off-peak hours and US$0.69 per minute for peak hours to a flat rate of US$0.40 per minute applicable to all call destinations at any time and any day of the week. Additionally, in November 2001, PLDT introduced *Budget Card,* a prepaid call card offering a reduced IDD rate of US$0.24 per minute for calls to the United States, Canada and Hawaii. *Budget Cards* are sold in a denomination of Php200, which must be used within 24 hours of activation.

Our outbound international long distance call volumes grew by 6.5% to 130.4 million minutes in the first nine months of 2002 from 122.4 million minutes in the first nine months of 2001 as a result of:

- reduced average IDD rates; and

- various marketing initiatives, including automatic activation of the IDD service for subscribers, innovative pricing packages for large accounts and loyalty programs for high-valued customers.

The depreciation of the peso increased our outbound international long distance revenues in peso terms because outbound calls are charged at U.S. dollar rates that are billed to our subscribers in pesos at the prevailing exchange rates at the time of billing.

National Long Distance Service

Our national long distance revenues consist of:

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

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

The following table shows our national long distance revenues and call volumes for the nine months ended September 30, 2002 and 2001:

	Nine Months Ended September 30, 2002	**2001**
Consolidated national long distance revenues (in million pesos)	5,836.8	6,559.0
National long distance call volumes (in million minutes)		
PLDT Group	1,735.2	2,184.6
PLDT	1,709.3	2,156.3

Our national long distance revenues decreased by Php722.2 million, or 11.0%, to Php5,836.8 million in the first nine months of 2002 from Php6,559.0 million in the same period in 2001 due to the combined effects of the following:

- decrease in call volumes mainly due to cellular substitution; and

- changes in PLDT s interconnect arrangements with the majority of other local exchange carriers.

Accordingly, the percentage contribution of national long distance revenues to our total fixed line revenues was down to 17.2% for the first nine months of 2002 from 18.3% for the same period in 2001.

Our national long distance call volumes decreased by 20.6% to 1,735.2 million minutes in the first nine months of 2002 from 2,184.6 million minutes in the same period in 2001. Cellular substitution and the widespread availability and growing popularity of alternative, more economical non-voice means of communications, particularly cellular text messaging and e-mail, have negatively affected call volumes.

In the latter part of 2001, PLDT simplified its rates for calls to fixed line subscribers and for those terminating to cellular subscribers resulting in an overall rate increase. For calls terminating to fixed line subscribers, the applicable rates from January to November 1, 2001 ranged from Php3 to Php5 per minute, depending on distance and time of call. In line with its move towards rate simplification, PLDT simplified these rates to a flat rate of Php4.50 per minute effective November 2, 2001. At the same time, PLDT simplified its rates for calls terminating to cellular subscribers from a range of Php10 to Php16 per minute to a uniform rate of Php13.75 per minute. Through rate simplification, we aim to simplify our tariff structure in order to enhance the competitiveness of our products and services, increase our operating efficiencies, and provide cost savings to our customers. We adopted these simplified pricing plans with a view to stabilizing our national long distance revenues going forward.

On May 1, 2001, PLDT entered into a new interconnect arrangement with the majority of other local exchange carriers. Under this arrangement, the originating carrier pays (1) a hauling charge of Php0.50 per minute for short haul or Php1.25 per minute for long haul traffic to the carrier owning the backbone network and (2) an access charge of Php1.00 per minute to the terminating carrier. PLDT maintains revenue-sharing arrangements with a few other local exchange carriers whereby charges are generally apportioned 30% for the originating entity, 40% for the backbone owner and the remaining 30% for the terminating entity.

The decline in our national long distance revenues in the first nine months of 2002 compared to the same period in 2001 was mitigated by the impact of the following:

- changes in interconnect arrangements with cellular operators;

- increase in national direct dialing rates; and

- launch of *PLDT Premium Phone Service*.

PLDT has reached an agreement with cellular operators to reduce the access charges that it pays for calls terminating to cellular subscribers. Effective January 2002, PLDT pays access charges of Php4.50 per minute, down from the Php6.50 per minute it paid for the period from July to December 2001. Prior to July 2001, PLDT was paying access charges ranging from a low of Php7.69 to a high of Php10.94 per minute for calls terminating to cellular subscribers, depending on whether the calls were local or long distance.

Launched in 2001, *PLDT Premium Phone Service* allows customers to choose from a range of service applications, such as appointment-booking services for select embassies (including, among others, the U.S. and Australian embassies in the Philippines), counseling, joining television-based game shows, celebrity chatting, downloading and sending of ringtones and logos, job postings, and My Music, a music entertainment line to various popular artists. PLDT charges a minimum of Php10 per minute for these premium phone services.

Data and Other Network Services

While the other segments of our fixed line business posted lower revenues in the first nine months of 2002 compared to the first nine months of 2001, our data and other network services registered revenue growth of Php608.9 million, or 17.3%, to Php4,125.8 million in the first nine months of 2002 from Php3,516.9 million in the first nine months of 2001. Revenues from these services also increased to 12.2% of our total fixed line revenues in the first nine months of 2002 from 9.8% in the same period in 2001. We expect that demand for, and therefore revenues generated from, these services will continue to increase in the foreseeable future.

Data and other network services we currently provide include:

- traditional bandwidth services   high-speed point-to-point domestic and international digital leased line services;

- broadband/packet-based/Internet-based services frame relay, asynchronous transfer mode or ATM, Internet protocol-virtual private network or IP-VPN, digital subscriber line or DSL, Internet gateway, and wholesale digital signal level 3 or DS3; and

- other packet-based switching services Datapac and integrated services digital network, or ISDN.

The foregoing services are used for the following:

- domestic and international communication;

- broadband data transmission services that transmit data over a range of frequencies and/or bandwidth into several narrower bands;

- Internet exchange services that provide Internet service providers with a primary connection to the global Internet to exchange local traffic generated within the Philippines;

- private networking services that use the public Internet as a backbone for private interconnection between different locations;

- switched-based services, provided through a fixed bandwidth transmission facility, that allow establishment of a dedicated connection for the duration of the call; and

- international packet-based services, provided through bilateral arrangements and global alliances, that integrate voice, video and data.

Of the total revenues from our data and other network services for the first nine months of 2002, traditional bandwidth services accounted for 58%, broadband/IP-based services accounted for 37%, and other services accounted for the remaining 5%, compared with 72%, 25% and 3%, respectively, for the same period in 2001. These percentage changes indicate a shift in data and other network revenues from traditional bandwidth services to broadband/IP-based services. We expect this trend to continue given the growing demand for broadband transmission of voice, data and video due to the continued growth of the Internet, e-commerce and other online services.

In May 2002, PLDT launched a pay-per-use dial-up Internet service under the brand name *PLDT Vibe*, which is available on a postpaid or prepaid basis to PLDT s fixed line subscribers. Charges for this service are Php0.25 per minute for off-peak hours, which is from 10:01 p.m. to 6:00 a.m., and Php0.50 per minute for peak hours, which is from 6:01 a.m. to 10:00 p.m. As of September 30, 2002, the number of PLDT s postpaid fixed line subscribers that signed up for *PLDT Vibe* was 48,147. With the launch of *PLDT Vibe*, PLDT now offers two residential Internet service packages addressing separate markets: *PLDT Vibe* for light to medium Internet users and *myDSL* broadband for heavy Internet users.

Miscellaneous

Miscellaneous revenues are derived mostly from directory advertising and facilities rental. For the first nine months of 2002, these revenues decreased by Php100.3 million, or 30.7%, to Php226.4 million from Php326.7 million for the same period in 2001. Miscellaneous revenues accounted for 0.6% of our consolidated fixed line revenues for the first nine months of 2002 and 0.9% for the same period in 2001.

Wireless

Our wireless business segment offers cellular services as well as satellite, very small aperture terminal, or VSAT, and other services. After June 27, 2001, our wireless revenues no longer include Piltel's revenues, except for 50% of Piltel's prepaid GSM revenues, net of interconnection expense, representing Smart s share under a revenue sharing agreement between Smart and Piltel governing Piltel s use of Smart s GSM network. This revenue share, recognized by Smart as facility service fees from Piltel, continues to be reflected as cellular service revenues in our consolidated statements of income. Under its other outsourcing agreements with Piltel, Smart also recognizes miscellaneous income, which is reflected under "Other Expenses net" account in our consolidated statements of income (see Other Information Related Party Transactions and Note 13 to the accompanying financial statements for details of these agreements).

The following table summarizes our consolidated operating revenues from our wireless business for the nine months ended September 30, 2002 and 2001 by service segment:

	Nine Months Ended September 30,			
	2002	**%**	**2001**	**%**
	(in million pesos, except percentages)			
Wireless services:				
Cellular	23,722.8	97.3	16,741.3	96.2
Satellite, VSAT and others	653.7	2.7	667.3	3.8
Total	24,376.5	100.0	17,408.6	100.0

Our wireless service revenues increased substantially by Php6,967.9 million, or 40.0%, to Php24,376.5 million in the first nine months of 2002 from Php17,408.6 million in the first nine months of 2001 mainly as a result of the continuing strong growth in revenues from Smart s cellular service. Consequently, as a percentage of our consolidated operating revenues, wireless service revenues rose to 41.4% in the first nine months of 2002 from 32.5% in the same period in 2001.

Cellular Service

Our cellular service revenues consist of:

- revenues derived from sales of cellular prepaid cards to dealers, net of discounts given to dealers;
- revenues from incoming calls and messages to our customers, net of interconnection expenses; fees from reciprocal traffic from international correspondents; and revenues from inbound international roaming calls for the GSM service;
- service fees charged to Piltel for using Smart's GSM network for Piltel's *Talk 'N Text* prepaid cellular service;
- 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 GSM service customers in excess of allotted free text messages and (4) charges for value-added services, net of related content provider costs; and
- other charges, including reconnection and migration charges.

Revenues from the sale of prepaid cards include proceeds from sales to dealers, net of (1) discounts given to dealers which amounted to Php1,872.1 million in the first nine months of 2002 and Php1,374.4 million for the same period in 2001 and (2) content provider costs relating to revenues from value-added services which amounted to Php717.4 million for the first nine months of 2002 and Php243.9 million for the same period in 2001. On August 15, 2002, maximum discounts given to dealers on the sale of prepaid cards were reduced from 12% to 10%. The two items listed below are also recorded as prepaid card revenues and, at the same time, as part of selling and promotion expenses.

- the value of prepaid cards given to dealers as commissions for phone kit sales, which amounted to Php2,243.4 million for the period January to July 2002 and Php2,373.3 million for the period January to September 2001. Effective August 1, 2002, Smart shifted its commissions on phone kit sales to a cash basis; and

- the value of the free air time preloaded into the subscriber identification module, or SIM, cards at the time of purchase, which amounted to Php253.4 million for the first nine months of 2002 and Php210.4 million for the same period in 2001.

Payments made to other carriers arising from the use of cards given in connection with the foregoing are recorded as part of total interconnection fees to the appropriate carrier and netted against interconnection income as calls are made.

Proceeds from the sale of handsets and SIM cards and one-time registration fees are not recorded as part of cellular service revenues. Gains on the sale of handsets are offset against selling and promotion expenses, while losses on the sale of handsets are included in selling and promotion expenses.

Our cellular service revenues for the first nine months of 2002, which came solely from Smart, amounted to Php23,722.8 million, an increase of Php6,981.5 million, or 41.7%, over our cellular service revenues for the first nine months of 2001 totaling Php16,741.3 million, including Piltel s cellular revenues of Php998.7 million. Cellular service revenues accounted for 40.3% of our consolidated operating revenues for the first nine months of 2002, compared to 31.2% for the same period in 2001. The substantial increase in our cellular service revenues was driven by the continuing growth of our cellular subscriber base.

As of September 30, 2002, the combined GSM and analog cellular subscribers of Smart and Piltel reached 7,879,963, an increase of 2,274,091, or 40.6%, over their combined GSM and analog subscriber base of 5,605,872 as of September 30, 2001. Accordingly, Smart's and Piltel's combined cellular subscribers outnumbered our fixed lines in service by more than 3.6 to 1 at September 30, 2002.

The table below shows the number of cellular subscribers of Smart and Piltel as of September 30, 2002 and 2001:

	September 30,	
	2002	**2001**
Cellular subscriber base	7,879,963	5,605,872
Smart	6,122,604	4,327,039
Piltel	1,757,359	1,278,833

Smart

Smart markets nationwide cellular communications services under four brand names: *Smart Buddy*, *Smart Gold*, *PriceBuster* and *BillCrusher*. *Smart Buddy* and *Smart Gold* are services provided through Smart's digital GSM network, whereas *PriceBuster* and *BillCrusher* are offered on Smart's analog enhanced total access communications system, or ETACS, network. *Smart Buddy* and *BillCrusher* are prepaid services, while *Smart Gold* and *PriceBuster* are postpaid or billed services. Having complied with the requirements set out by the NTC, Smart intends to close down its ETACS network by December 31, 2002.

The following table summarizes key measures of Smart's cellular business as of and for the nine months ended September 30, 2002 and 2001:

	Nine Months Ended September 30,	
	2002	**2001**
Cellular revenues (in million pesos)	23,722.8	15,742.6
GSM	23,438.7	15,179.5
Voice	12,161.8	9,318.5
Data	8,602.0	4,302.6
Others(1)	2,674.9	1,558.4
Analog	53.9	426.7
Others(2)	230.2	136.4
Cellular subscriber base	6,122,604	4,327,039
GSM	5,949,236	4,014,790
Prepaid	5,818,005	3,944,163
Postpaid	131,231	70,627
Analog	173,368	312,249
Prepaid	19,316	139,411
Postpaid	154,052	172,838
Traffic volumes (in millions)		
Calls (in minutes)	2,062.4	1,321.6
National	1,380.5	853.3
International	681.9	468.3
Inbound	601.2	424.6
Outbound	80.7	43.7
Messages - SMS(3)	11,742.7	8,606.0

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(1) Refers to other non-subscriber-related revenues, such as facility service fees from Smart s revenue-sharing agreement with Piltel and inbound international roaming fees.

(2) Refers to all other services consisting primarily of Public Calling Offices and *SMARTalk* payphones and a small number of leased line circuits.

(3) Refers to short messaging service or text messaging.

Smart's cellular service revenues increased by Php7,980.2 million, or 50.7%, to Php23,722.8 million in the first nine months of 2002 from Php15,742.6 million in the same period in 2001. Smart s GSM service accounted for 98.8% of its cellular service revenues for the first nine months of 2002, while its analog and other services accounted for the remaining 1.2%. Revenues from Smart's GSM service for the first nine months of 2002 included Php2,253.1 million in facility service fees representing Smart s 50% share of revenues from Piltel s *Talk 'N Text,* the prepaid service using Smart s GSM network marketed by Piltel, net of interconnection fees, pursuant to a facilities service agreement between Smart and Piltel (see Note 13 to the accompanying financial statements for a description of this agreement). The significant decline of Php372.8 million, or 87.4%, to Php53.9 million in Smart's analog service revenues for the first nine months of 2002 was due to the declining analog subscriber base coupled with decreasing average revenue per user, or ARPU. As a result of this decline and having complied with NTC s requirements, Smart intends to close down its ETACS network by December 2002.

Revenues from cellular data services, which include all text messaging-related services as well as value-added services excluding facility service fees from Piltel for *Talk N Text*, increased by Php4,299.4 million, or 99.9%, to Php8,602.0 million for the first nine months of 2002 from Php4,302.6 million for the same period in 2001. Accordingly, cellular data services accounted for 36.3% of Smart's cellular revenues for the first nine months of 2002, compared to 27.3% for the same period in 2001. Text messaging-related services contributed revenues of Php8,267.0 million in the first nine months of 2002, or 96.1%, of total wireless data revenues, compared to Php4,045.6 million, 94.0% of the total in the first nine months of 2001. Revenues from domestic text-related services amounted to Php7,404.3 million for the first nine months of 2002, compared to Php3,669.0 million for the same period in 2001, comprising 86.1% and 85.7% of wireless data revenues for the first nine months of 2002 and 2001, respectively. International text contributed revenues of Php862.6 million in the first nine months of 2002, up by 129.0% from Php376.6 million in the same period in 2001.

Among Smart s other value-added services, *Smart zed*ä services contributed revenues of Php121.1 million in the first nine months of 2002, compared to Php123.7 million in the same period in 2001. Smart also offers other value-added services developed on its own platform, and these services contributed Php173.9 million and Php100.0 million in revenues in the first nine months of 2002 and 2001, respectively. For the first nine months of 2002, Smart also recognized Php15.8 million in revenues from *Smart Money. Smart Money* revenues consist of Smart s share in transaction fees, loyalty membership fees and interest income on the *Smart Money* card float. Revenues generated from text messaging usage for *Smart Money*-related transactions, such as balance inquiry, are reflected under GSM data revenues.

During the first nine months of 2002, Smart's SMS system handled 11,742.7 million outbound messages, an increase of 36.4% from the 8,606.0 million outbound messages handled during the same period in 2001. Smart has implemented a two-phase reduction of its free text message allocation to subscribers. The first phase, effective September 15, 2001, reduced the allocation by one-third, while the second phase, effective January 1, 2002, reduced the allocation by another one-third of the original allocation, or a total reduction of two-thirds.

Prior to July 2001, Smart received interconnection fees at an average of Php8.50 per minute for calls originating from fixed line subscribers. Effective July 2001, these fees were reduced to Php6.50 per minute and then further reduced to Php4.50 per minute effective January 2002. Also, prior to July 2001, Smart received interconnection fees and paid interconnection charges of Php1.00 per minute for calls originating from/terminating to another cellular operator's network. Effective July 2001, these charges were increased to Php3.00 per minute and then further increased to Php4.50 per minute effective January 2002.

Smart's prepaid GSM subscriber base grew by 47.5% to 5,818,005 at September 30, 2002 from 3,944,163 at September 30, 2001, whereas Smart's postpaid GSM subscriber base increased by 85.8% to 131,231 at September 30, 2002 from 70,627 at September 30, 2001. Prepaid subscribers accounted for 97.8% of Smart's 5,949,236 GSM subscribers at September 30, 2002, while postpaid subscribers accounted for the remaining 2.2%. In contrast, Smart's prepaid analog subscriber base decreased by 86.1% to 19,316 at September 30, 2002 from 139,411 at September 30, 2001, whereas Smart's postpaid analog subscriber base decreased by10.9% to 154,052 at September 30, 2002 from 172,838 at September 30, 2001. Overall, Smart's analog subscriber base decreased by 44.5% to 173,368 at September 30, 2002.

The following table shows Smart's average monthly sales ARPUs for the nine months ended September 30, 2002 and 2001:

	Nine Months Ended September 30,	
	2002	**2001**
GSM	**(in pesos)**	
Prepaid	570	601
Postpaid	2,066	1,778
Blended	595	627
Analog		
Prepaid	44	131
Postpaid	33	134
Blended	37	133

ARPU is computed for each month by dividing the relevant revenues for the month by the average of the beginning and ending subscribers for the relevant service for that month. ARPU for any period of more than one month is calculated as the simple average of the ARPUs for each month in that period.

GSM ARPU and Churn Rates. Prepaid service revenues consist mainly of proceeds from sales of prepaid cards booked by Smart as revenues when the cards are sold to dealers (on a non-refundable basis). Thus, sales ARPUs may fluctuate depending on the level of orders from the dealers and the volume of cards released as commissions to dealers on activations. Smart also tracks ARPUs based on subscribers' actual usage of their prepaid cards. Usage ARPUs tend to be more stable and are good indicators of sustainable revenue levels when a critical mass of subscribers has been attained.

The table below summarizes Smart's average monthly ARPUs for each quarter in 2001 and for the first, second and third quarters of 2002 for prepaid GSM subscribers based on sales and usage:

	2001				**2002**		
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**
				(in pesos)			
Sales	635	549	619	562	513	591	605
Usage	567	567	592	589	575	583	590

Monthly ARPU for Smart's postpaid GSM service is calculated in a manner similar to that of prepaid service, except that the revenues consist mainly of monthly service fees (which may be applied to any type of voice or data service) and charges on usage in excess of the monthly service fees. Average monthly ARPU for postpaid GSM subscribers for the first nine months of 2002 was Php2,066, compared to Php1,778 for the first nine months of 2001. For the first nine months of 2002, Smart's average monthly blended ARPU for both prepaid and postpaid GSM services was Php595, compared to Php627 for the first nine months of 2001.

Revenues derived from Smart's 50% share of Piltel's prepaid GSM service under its revenue sharing agreement with Piltel are not included in the computations of Smart's ARPUs.

Churn, or the rate at which existing subscribers have their service canceled 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 beginning and ending numbers of subscribers for the period, all divided by the number of months in the same period.

A prepaid cellular subscriber is recognized as an active subscriber when that subscriber activates and uses the SIM card in the handset, which already contains Php100 worth of pre-stored air time. Subscribers can then reload by purchasing prepaid call and text cards that are sold in denominations of Php300, Php500 and Php1,000 or by purchasing additional air time through their handsets using *Smart Money*. Reloads are valid for two months. A prepaid GSM account is disconnected if the subscriber does not reload within four months after the full usage or expiry of the last reload. As a result, a subscriber would not be recognized in churn for up to four to six months after the subscriber may have stopped using the service to make calls or send messages (although the subscriber may continue to receive calls and messages). These effects may cause our calculated churn rate for a period to be lower than the actual rate at which subscribers are ceasing to use Smart's services, and may contribute to more rapid growth in calculated churn following periods of rapid subscriber growth.

For Smart's prepaid GSM subscribers, the average monthly churn rate for the first nine months of 2002 was 3.5%, compared to 1.4% for the first nine months of 2001. Smart's churn has been influenced by several factors, particularly the slowdown of the Philippine economy, which negatively affected the ability of some subscribers to afford the service. In line with the various churn management initiatives being implemented to address the increase in churn rate, Smart introduced *PureTxt 100* on August 18, 2002. *PureTxt 100* is a text-only card with a denomination of Php100 intended for *Smart Buddy* subscribers. The card is designed as an alternative for subscribers who may temporarily be unable to afford the Php300-denominated card. Once a *PureTxt 100* card is loaded, the incoming and outgoing voice-calling capabilities of the subscriber are temporarily deactivated. To reactivate the voice-call capabilities, the subscriber simply needs to reload with a call and text card in a denomination of at least Php300. *PureTxt 100* cards come with a free allocation of 10 text messages and are valid for one month.

The average monthly churn rate for Smart's postpaid GSM subscribers in the first nine months of 2002 was 2.6%, compared to 3.5% in the same period in 2001. 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 45 days of redirection, the account is disconnected. Within this 45-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.

Analog ARPU and Churn Rates. Average monthly ARPUs for prepaid and postpaid analog service for the first nine months of 2002 were Php44 and Php33, down from Php131 and Php134, respectively, for the same period of 2001. Blended ARPU for prepaid and postpaid analog service decreased by 72.0% to Php37 for the first nine months of 2002 from a blended ARPU of Php133 for the same period in 2001.

The churn rate for prepaid and postpaid analog subscribers is computed in the same way as that for prepaid and postpaid GSM subscribers. The average monthly churn rate for prepaid analog subscribers for the first nine months of 2002 increased to 14.2% from 7.5% for the same period in 2001, while the average monthly churn rate for postpaid analog subscribers was 0.7%, a decrease from 3.8% for the first nine months of 2001.

This increased churn and the resulting rapid decline in the subscriber base and revenues were key factors in Smart s decision to close down its analog network by December 31, 2002.

Piltel

Piltel ceased to be treated as a consolidated subsidiary effective June 27, 2001.

Piltel markets its cellular services under the brand names *Talk 'N Text*, *Phone Pal* and *Mobiline*. *Talk 'N Text* is provided using Smart's GSM network, while *Phone Pal* and *Mobiline* are offered through Piltel's analog/CDMA network. *Talk 'N Text* and *Phone Pal* are prepaid services, while *Mobiline* is a postpaid service.

The following table shows Piltel's cellular subscriber base as of September 30, 2002 and 2001:

	September 30,	
	2002	**2001**
Cellular subscriber base	1,757,359	1,278,833
GSM prepaid	1,674,106	1,110,063
Analog/CDMA	83,253	168,770
Prepaid	16,270	97,765
Postpaid	66,983	71,005

At September 30, 2002, Piltel's cellular subscriber base reached 1,757,359, an increase of 478,526, or 37.4%, from 1,278,833 at September 30, 2001. The increase was driven by the continued growth of Piltel s prepaid GSM service under the brand name *Talk 'N Text*. Launched in April 2000, *Talk 'N Text* had over 750,000 subscribers at June 27, 2001 and over 1.7 million subscribers at September 30, 2002. Through *Talk 'N Text,* Piltel has built the third largest GSM subscriber base in the Philippines, gaining a foothold in the GSM market. Revenues from *Talk 'N Text,* net of Smart's revenue share, amounted to Php2,253.1 million for the first nine months of 2002, compared to Php1,253.6 million for the first nine months of 2001.

Talk N Text experienced an increased level of churn from 1.7% in the first seven months of 2001 to 6.4% in the same period in 2002, primarily as a result of the general economic slowdown in the Philippines which negatively affected the ability of some subscribers to afford the service. In an effort to address the increasing churn level, on August 1, 2002, *Talk N Text* introduced *PureTxt 100*, which is similar to the service introduced by Smart, as described above.

Talk 'N Text gross monthly ARPU for the first nine months of 2002 was Php377, compared to Php403 for the same period in 2001. Gross monthly ARPU is calculated by dividing gross revenues (before deducting interconnection costs and Smart s revenue share) for this service by the average of the beginning and ending subscribers for the month, net of disconnected accounts.

For the first nine months of 2001, Piltel's cellular net revenue contribution to our consolidated revenues amounted to Php998.7 million prior to its deconsolidation. Of this amount, 57.6% came from prepaid GSM service, 22.6% from interconnection with local carriers and miscellaneous fees, 11.0% from prepaid analog/CDMA services, and 8.8% from postpaid analog/CDMA services.

Satellite, VSAT and Other Services

Our revenues from satellite, VSAT and other services consist mainly of rentals received for the lease of Mabuhay Satellite's transponders and Telesat's VSAT facilities to other companies and charges for ACeS Philippines satellite phone service. Revenues derived from these services for the first nine months of 2002 amounted to Php653.7 million, a decrease of Php13.6 million, or 2.0%, from the Php667.3 million for the same period in 2001. ACeS Philippines, our satellite phone service provider, started rolling out fixed satellite terminals in the last quarter of 2001 and generated revenues of Php46.0 million for the first nine months of 2002.

Information and Communications Technology

Our information and communications technology business is conducted by our wholly-owned subsidiary ePLDT, which was formed in August 2000 and started commercial operations in February 2001. ePLDT's principal business is its operation of an Internet data center under the brand name *Vitro*ä. Granted pioneer status as an Internet data center by the Philippine Board of Investments, *Vitro*ä provides co-location services, server hosting, hardware and software maintenance services, website development and maintenance services, webcasting and webhosting, shared applications, data disaster recovery and business continuity services, intrusion detection, and security services such as firewall and managed firewall. ePLDT also operates Infocom, our Internet service provider. We completed the transfer of PLDT's investment in Infocom to ePLDT in December 2001 as part of the reorganization of our businesses into three major business segments.

ePLDT is also engaged in the call center business through the following subsidiaries:

- Contact World, Inc., a call center facility capable of accommodating 200 seats and providing services that include customer acquisition, retention and growth, customer care and support, receivables management, help desk and technical support to various companies. Contact World commenced commercial operations in June 2001;

- Vocativ Systems, Inc., a call center facility capable of accommodating 500 seats exclusively for clients of a global provider of customer relationship management services. Vocativ Systems commenced commercial operations in April 2002; and

- Parlance Systems, Inc., a call center facility capable of accommodating 520 seats exclusively for one of the largest direct-to-home service providers in the United States for customer support and billing requirements. Parlance Systems commenced commercial operations in June 2002.

ePLDT has also invested in a number of other e-commerce and Internet-related businesses, as described in Note 7 to the accompanying financial statements.

Revenues generated from our information and communications technology business were Php623.2 million for the first nine months of 2002, an increase of Php295.0 million, or 89.9%, over the Php328.2 million of such revenues for the first nine months of 2001, and accounted for approximately 1% of our consolidated operating revenues in each of these periods. For the first nine months of 2002, ePLDT s Internet data center operations contributed revenues of Php190.2 million, representing 30.5% of total revenues from our information and communications technology business. Infocom contributed revenues of Php288.0 million, an increase of Php56.9 million, or 24.6%, over its revenue contribution of Php231.1 million for the first nine months of 2001. Infocom s revenue contribution represented 46.2% of our information and communications technology revenues for the first nine months of 2002. ePLDT s call center business contributed revenues of Php145.0 million, representing 23.3% of our information and communications technology revenues. Going forward, we expect revenues from our call center business to contribute significantly to our information and communications technology revenues with the full commercial operations of Parlance Systems and Vocativ Systems.

Consolidated Operating Expenses

Our consolidated operating expenses for the first nine months of 2002, which include Smart's operating expenses of Php18,360.8 million, increased by Php2,732.8 million, or 6.6%, to Php43,975.6 million from Php41,242.8 million for the same period in 2001. The increase was principally due to higher cash expenses, such as compensation and benefits and rent pertaining to our wireless business. As a percentage of our consolidated operating revenues, however, consolidated operating expenses decreased to 74.6% in the first nine months of 2002 from 77.0% in the same period in 2001.

Fixed Line

Consolidated operating expenses related to our fixed line business decreased by Php1,049.9 million, or 4.2%, to Php23,989.6 million for the first nine months of 2002 from Php25,039.5 million for the same period in 2001. The decrease was due mainly to lower cash expenses as a result of our various cost reduction initiatives. Fixed line-related operating expenses as a percentage of our total fixed line operating revenues increased to 70.7% in the first nine months of 2002 from 69.9% in the first nine months of 2001.

The following table shows the breakdown of our total consolidated fixed line-related operating expenses for the nine months ended September 30, 2002 and 2001 and the percentage of each expense item to the total:

	Nine Months Ended September 30,			
	2002	**%**	**2001**	**%**
	(in million pesos, except percentages)			
Fixed line services:				
Depreciation and amortization(1)	9,817.7	40.9	10,205.6	40.8
Compensation and benefits	5,423.2	22.6	5,399.7	