PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 6-K
May 04, 2004

**MANAGEMENT S DISCUSSION AND ANALYSIS OF**

**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**For the Three Months Ended March 31, 2004**

*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 Basis of Financial Statement Preparation to the accompanying 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 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 differs in certain significant respects from generally accepted accounting principles in the United States.*

*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; 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 financial statements were made based on the exchange rate of Php56.216 to US$1.00, the volume weighted average exchange rate at March 31, 2004 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 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.*

**Financial Highlights**

| **(in millions)** | **March 31, 2004 (Unaudited)** | **December 31, 2003**(1) **(Audited)** | **Increase (Decrease) Amount** | **%** |
|---|---|---|---|---|
| **Consolidated Balance Sheets** | | | | |
| Total assets | Php301,412 | Php297,626 | Php3,786 | 1 |
| Property, plant and equipment - net | 243,455 | 244,427 | (972) | |
| Total debt | 156,960 | 159,814 | (2,854) | (2) |
| Total stockholders equity | 98,451 | 93,578 | 4,873 | 5 |
| Debt to equity ratio | 1.59x | 1.71x | | |

| | **Three Months Ended March 31, 2004** | **2003**(1) **(Unaudited)** | **Increase (Decrease) Amount** | **%** |
|---|---|---|---|---|
| **Consolidated Statements of Income** | | | | |
| Operating revenues | Php27,092 | Php22,737 | Php4,355 | 19 |
| Operating expenses | 16,619 | 15,645 | 974 | 6 |
| Net operating income | 10,473 | 7,092 | 3,381 | 48 |
| EBIT(2) | 9,826 | 6,344 | 3,482 | 55 |
| EBITDA(3) | 16,346 | 12,147 | 4,199 | 35 |
| Net income | 5,240 | 2,483 | 2,757 | 111 |
| Operating margin | 39% | 31% | | |
| EBITDA margin | 60% | 53% | | |
| **Consolidated Statements of Cash Flows** | | | | |
| Net cash provided by operating activities | Php16,679 | Php11,920 | Php4,759 | 40 |
| Net cash used in investing activities | 4,687 | 2,220 | 2,467 | 111 |
| Capital expenditures | 4,299 | 1,890 | 2,409 | 127 |
| Net cash used in financing activities | 7,237 | 8,038 | (801) | (10) |

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(1) As restated to reflect the change in accounting policy on leases, as described in *Note 3 Accounting Changes* to the accompanying financial statements.

(2) EBIT is defined as earnings before minority interest in net (income) losses of consolidated subsidiaries, adding back interest expense and related items, taxes and deducting interest income. 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 conformity with generally accepted accounting principles, or as a measure of profitability or liquidity.

(3) EBITDA is defined as earnings before minority interest in net (income) losses of consolidated subsidiaries, adding back interest expense and related items, taxes, depreciation and amortization, deducting interest income 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 conformity with generally accepted accounting principles, or as a measure of profitability or liquidity.

EBIT and EBITDA, on a consolidated basis for the three months ended March 31, 2004 and 2003, are derived as follows:

| | **Three Months Ended March 31,** | | | |
|---|---|---|---|---|
| | | | **Increase (Decrease)** | |
| | **2004** | **2003**(b) | **Amount** | **%** |
| | | **(Unaudited)** | | |
| **(in millions)** | | | | |
| Earnings before minority interest in net (income) losses of consolidated subsidiaries(a) | Php5,236 | Php2,487 | Php2,749 | 111 |
| Add: Interest expenses(a) | 2,948 | 2,956 | (8) | |
| Provision for income tax(a) | 1,854 | 1,004 | 850 | 85 |
| Less: Interest income(a) | 212 | 103 | 109 | 106 |
| EBIT | 9,826 | 6,344 | 3,482 | 55 |
| Add: Depreciation and amortization(a) | 6,520 | 5,803 | 717 | 12 |
| EBITDA | Php16,346 | Php12,147 | Php4,199 | 35 |

(a) See statements of income in the accompanying financial statements.

(b) As restated to reflect the change in accounting policy on leases, as described in *Note 3 Accounting Changes* 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:

• *Wireless* wireless telecommunications services provided by PLDT s subsidiaries, Smart Communications, Inc., our cellular service provider, and Mabuhay Satellite Corporation, ACeS Philippines Cellular Satellite Corporation, and Telesat, Inc., our satellite and very small aperture terminal, or VSAT, operators;

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

• *Information and Communications Technology* information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by PLDT s subsidiary ePLDT, Inc.; internet access services provided by ePLDT s subsidiary Infocom Technologies, Inc.; and e-commerce, call centers and IT-related services provided by other investees of ePLDT, as described in *Note 9 Investments* to the accompanying financial statements.

**Results of Operations**

The table below shows the contribution by each of our business segments to our consolidated operating revenues, operating expenses and net operating income (losses) for the three months ended March 31, 2004 and 2003. Most of our revenues are derived from our operations within the Philippines. Our revenues derived from outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.

| | **Three Months Ended March 31,** | | | | | |
|---|---|---|---|---|---|---|
| | | | | | **Increase (Decrease)** | |
| | **2004** | **%**(1) | **2003**(2) **(Unaudited)** | **%**(1) | **Amount** | **%** |
| **(in millions)** | | | | | | |
| **Operating Revenues** | | | | | | |
| Wireless | Php14,956 | 55 | Php10,940 | 48 | Php4,016 | 37 |
| Fixed line | 11,694 | 43 | 11,440 | 50 | 254 | 2 |
| Information and communications technology | 442 | 2 | 357 | 2 | 85 | 24 |
| | 27,092 | 100 | 22,737 | 100 | 4,355 | 19 |
| **Operating Expenses** | | | | | | |
| Wireless | 8,151 | 30 | 7,126 | 31 | 1,025 | 14 |
| Fixed line | 8,101 | 30 | 8,077 | 36 | 24 | |
| Information and communications technology | 367 | 1 | 442 | 2 | (75) | (17) |
| | 16,619 | 61 | 15,645 | 69 | 974 | 6 |
| **Net Operating Income (Losses)** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Wireless | 6,805 | 25 | 3,814 | 17 | 2,991 | 78 |
| Fixed line | 3,593 | 13 | 3,363 | 14 | 230 | 7 |
| Information and communications technology | 75 | 1 | (85) | | 160 | (188) |
| | Php10,473 | 39 | Php7,092 | 31 | Php3,381 | 48 |

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

(2) As restated to reflect the change in accounting policy on leases, as described in *Note 3 Accounting Changes* to the accompanying financial statements.

**Consolidated Operating Revenues**

Largely driven by the continued strong growth of our wireless business, particularly Smart s cellular business, our consolidated operating revenues for the first quarter of 2004 increased by Php4,355 million, or 19%, to Php27,092 million from Php22,737 million in the same period in 2003. The revenue contribution of our wireless business accounted for 55% of our consolidated operating revenues for the first quarter of 2004, compared to 48% in the same period in 2003. Smart contributed Php14,711 million in revenues for the first quarter of 2004 an increase of 37% over its revenue contribution of Php10,744 million for the same period in 2003.

***Wireless***

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

The following table summarizes our consolidated operating revenues from our wireless business for the three months ended March 31, 2004 and 2003 by service segment:

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | | | | | Increase | |
| | 2004 | % | 2003 (Unaudited) | % | Amount | % |
| **(in millions)** | | | | | | |
| Wireless services: | | | | | | |
| Cellular | Php14,711 | 98 | Php10,744 | 98 | Php3,967 | 37 |
| Satellite, VSAT and others | 245 | 2 | 196 | 2 | 49 | 25 |
| Total | Php14,956 | 100 | Php10,940 | 100 | Php4,016 | 37 |

Our wireless service revenues increased by Php4,016 million, or 37%, to Php14,956 million in the first quarter of 2004 from Php10,940 million in the same period in 2003 mainly as a result of the continued strong growth in revenues generated from Smart s cellular service. Accordingly, as a percentage of our consolidated operating revenues, wireless service revenues increased to 55% in the first quarter of 2004 from 48% in the same period in 2003.

*Cellular Service*

Our cellular service revenues consist of:

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

- monthly service fees from postpaid subscribers, including (1) charges for calls in excess of allocated free local calls, (2) toll charges for national and international long distance calls, (3) charges for text messages of our GSM 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 GSM service;

- service fees charged to Pilipino Telephone Corporation, or Piltel, for using Smart's GSM network for Piltel's *Talk 'N Text* prepaid cellular service; and

- other charges, including those for reconnection and migration.

Proceeds from the sale of handsets and SIM cards 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 and SIM cards are included as part of selling and promotion expenses.

Our cellular service revenues in the first quarter of 2004 amounted to Php14,711 million, an increase of Php3,967 million, or 37%, from Php10,744 million in the same period in 2003. Cellular service revenues accounted for 98% of our wireless revenues and contributed 54% to our consolidated operating revenues in the first quarter of 2004, compared to 47% in the same period in 2003. This increase was primarily due to the growth in Smart s subscriber base, which increased by 3,795,371, or 51%, from 7,389,807 as of March 31, 2003 to 11,185,178 as of March 31, 2004. The strong subscriber growth offset the decline in blended monthly gross and net ARPU, which dropped by 12% and 8%, respectively.

Smart markets nationwide cellular communications services under the brand names *Smart Buddy, Smart Gold, addict mobile* and *Smart Infinity. Smart Buddy* is a prepaid service while *Smart Gold, addict mobile* and *Smart Infinity* are postpaid services, which are all provided through Smart's digital GSM network. Introduced in April 2003, *addict mobile* offers exclusive multimedia content to subscribers and features personalized means for internet surfing, allowing subscribers to apply their allocated free credits towards their choice of data and value-added services. *Smart Infinity* is a premium postpaid plan, launched in January 2004 that caters to affluent and highly mobile market, offering first class quality services, including a round-the-clock dedicated personal concierge service, international assistance services, premium handset packages and exclusive lifestyle content.

The following table summarizes key measures of our cellular business as of and for the three months ended March 31, 2004 and 2003:

| | **Three Months Ended March 31,** | | | |
|---|---|---|---|---|
| | | | **Increase** | |
| | **2004** | **2003** | **Amount** | **%** |
| | | **(Unaudited)** | | |
| **(in millions)** | | | | |
| Cellular revenues | Php14,711 | Php10,744 | Php3,967 | 37 |
| GSM | 14,595 | 10,662 | 3,933 | 37 |
| *By component* | *12,954* | *9,648* | *3,306* | *34* |
| Voice | 6,876 | 5,656 | 1,220 | 22 |
| Data | 6,078 | 3,992 | 2,086 | 52 |
| *By service type* | *12,954* | *9,648* | *3,306* | *34* |
| Prepaid | 11,911 | 8,686 | 3,225 | 37 |
| Postpaid | 1,043 | 962 | 81 | 8 |
| *GSM-Others*(1) | *1,641* | *1,014* | *627* | *62* |
| Others(2) | 116 | 82 | 34 | 41 |

| | **As of March 31,** | | | |
|---|---|---|---|---|
| | | | **Increase** | |
| | **2004** | **2003** | **Amount** | **%** |
| | | **(Unaudited)** | | |

| | | | | |
|---|---|---|---|---|
| GSM Cellular subscriber base | 11,185,178 | 7,389,807 | 3,795,371 | 51 |
| Prepaid | 10,919,335 | 7,176,196 | 3,743,139 | 52 |
| Postpaid | 265,843 | 213,611 | 52,232 | 24 |
| | | | | |
| Systemwide subscriber base(3) | 14,356,186 | 9,368,513 | 4,987,673 | 53 |

| | **Three Months Ended March 31,** | | | |
|---|---|---|---|---|
| | | | **Increase (Decrease)** | |
| | **2004** | **2003** | **Amount** | **%** |
| | | **(Unaudited)** | | |
| Traffic volumes (in millions) | | | | |
| Calls (in minutes) | 985 | 842 | 143 | 17 |
| Domestic | 712 | 571 | 141 | 25 |
| International | 273 | 271 | 2 | 1 |
| Inbound | 236 | 237 | (1) | |
| Outbound | 37 | 34 | 3 | 9 |
| Text messages outbound | 8,214 | 5,114 | 3,100 | 61 |

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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 revenues from Smart Money Holdings Corporation, public calling offices and *SMARTalk* payphones, and a small number of leased line contracts.

(3) Includes Piltel s *Talk N Text* subscribers of 3,171,008 and 1,978,706 as of March 31, 2004 and 2003, respectively. *Talk N Text* is a prepaid GSM service provided by Piltel using Smart s GSM network under a revenue-sharing agreement.

*Voice Services*

Smart s revenues from voice services, which include all voice traffic and value-added services such as voice mail and international roaming, increased by Php1,220 million, or 22%, to Php6,876 million in the first quarter of 2004 from Php5,656 million in the same period in 2003 mainly due to the increase in subscriber base.

Prior to January 2004, *Smart Buddy* subscribers were charged a rate of Php8.00 per minute for calls made during peak hours and Php4.00 per minute for calls made during off-peak hours regardless of whether the calls were made to subscribers within the Smart network or to other mobile operators networks. Beginning January 2004, Smart implemented all-day flat air time rates for calls made by its prepaid subscribers. Calls terminating to other Smart and Piltel s *Talk N Text* subscribers are charged Php6.50 per minute, while an all-day flat rate of Php7.50 per minute is charged for calls terminating to other cellular network subscribers as well as local and NDD calls.

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

*Data Services*

Smart s revenues from cellular data services, which include all text messaging-related services as well as value-added services, increased by Php2,086 million, or 52%, to Php6,078 million in the first quarter of 2004 from Php3,992 million in the same period in 2003. Cellular data services accounted for 42% of Smart's GSM cellular revenues in the first quarter of 2004, compared to 37% in the same period in 2003. Text messaging-related services contributed revenues of Php5,549 million in the first quarter of 2004, compared to Php3,730 million in the same period in 2003, and accounted for 91% and 93% of the total cellular data revenues for the first quarter of 2004 and 2003, respectively. The increase in revenues from text messaging-related services resulted mainly from a 61% increase in volume of text messages to 8,214 million outbound messages in the first quarter of 2004 from the 5,114 million outbound messages handled in the same period in 2003. Value-added services contributed revenues of Php529 million in the first quarter of 2004, increasing by Php267 million, or 102%, from Php262 million in the same period in 2003.

The following table shows the breakdown of Smart s cellular data revenues for the three months ended March 31, 2004 and 2003:

| | **March 31,** | | **Increase (Decrease)** | |
|---|---|---|---|---|
| | **2004** | **2003** | **Amount** | **%** |
| | **(Unaudited)** | | | |
| **(in millions)** | | | | |
| Text messaging | | | | |
| Domestic | Php5,146 | Php3,323 | Php1,823 | 55 |
| International | 403 | 407 | (4) | (1) |
| | 5,549 | 3,730 | 1,819 | 49 |
| Value-added services | | | | |
| Non-Zed(1) | Php245 | Php119 | Php126 | 106 |
| *Smart Zed*TM | 98 | 114 | (16) | (14) |
| Mobile Banking, Roaming SMS, WAP, *Smart Money* | 186 | 29 | 157 | 541 |
| | 529 | 262 | 267 | 102 |

| | | | | |
|---|---|---|---|---|
| Total | Php6,078 | Php3,992 | Php2,086 | 52 |

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

*Facility Services*

Smart s revenues from GSM service in the first quarter of 2004 and 2003 included facility service fees totaling Php1,343 million and Php841 million, respectively, representing Smart s 50% share from Piltel s *Talk N Text* revenues, net of interconnection fees. As of March 31, 2004, Piltel had 3,171,008 *Talk N Text* subscribers compared to 1,978,706 subscribers as of March 31, 2003 using Smart s GSM network pursuant to a facilities service agreement between Smart and Piltel. See *Note 15 Related Party Transactions* to the accompanying financial statements for a description of this agreement.

*Subscriber Base, ARPU and Churn Rates*

Of Smart s 11,185,178 GSM subscribers as of March 31, 2004, prepaid subscribers accounted for approximately 98% while postpaid subscribers accounted for the remaining 2%. Smart's prepaid GSM subscriber base grew by 52% to 10,919,335 as of March 31, 2004 from 7,176,196 as of March 31, 2003, whereas Smart's postpaid GSM subscriber base increased by 24% to 265,843 as of March 31, 2004 from 213,611 as of March 31, 2003. Smart s prepaid and postpaid net subscriber activations totaled 1,088,200 and 16,866, respectively, in the first quarter of 2004, or a monthly average addition of 362,733 prepaid and 5,622 postpaid subscribers.

Revenues attributable to Smart s prepaid service amounted to Php11,911 million in the first quarter of 2004, a 37% increase over the Php8,686 million earned in the same period in 2003. Net prepaid revenues in the first quarter of 2004 accounted for 92% of GSM voice and data revenues, compared to 90% in the same period in 2003. Revenues attributable to Smart s postpaid service amounted to Php1,043 million in the first quarter 2004, an 8% increase over the Php962 million earned in the same period in 2003. Net postpaid revenues in the first quarter of 2004 accounted for 8% of GSM voice and data revenues, compared to 10% in the same period in 2003.

The following table summarizes Smart's usage-based monthly ARPUs for the three months ended March 31, 2004 and 2003:

**Three Months Ended March 31,**

| | Gross 2004 | Gross 2003 | Increase (Decrease) Amount | Increase (Decrease) % | Net 2004 | Net 2003 | Increase (Decrease) Amount | Increase (Decrease) % |
|---|---|---|---|---|---|---|---|---|
| | | | | (Unaudited) | | | | |
| Prepaid | Php463 | Php533 | Php(70) | (13) | Php383 | Php416 | Php(33) | (8) |
| Postpaid | 1,762 | 1,716 | 46 | 3 | 1,351 | 1,268 | 83 | 7 |
| Blended | 495 | 565 | (70) | (12) | 406 | 439 | (33) | (8) |

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-provided 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-provided 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.

Smart s prepaid service revenues consist mainly of charges for subscribers' actual usage of their prepaid cards. Gross monthly ARPU for Smart s prepaid GSM service in the first quarter of 2004 was Php463, compared to Php533 in the same period in 2003. The decline was attributable mainly to a decrease in the average outbound local voice revenue per subscriber in the first quarter of 2004. On a net basis, ARPU in the first quarter of 2004 decreased by 8% to Php383 from Php416 in the same period in 2003. The lower rate of decrease in net ARPU compared to the decrease in gross ARPU resulted from lower average interconnection expense per subscriber due to an increasing percentage of Smart-to-Smart traffic to total voice traffic, to 61% in the first quarter of 2004 from 55% in the same period in 2003, as well as lower dealer discounts on *Smart Load.* Smart currently expects its prepaid ARPUs to continue to decline now that lower-denomination reloads are available and as it continues its expansion into the lower end of the market.

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 and charges on usage in excess of the monthly service fees. Until April 2003, pre-termination fees had been reported as part of usage revenues and included in the calculation of postpaid ARPUs; pre-termination fees of Php196 million were included in the ARPU computation during the first quarter of 2003. ARPU is a measure associated with a subscribers actual usage of the network on which pre-termination fees would have had no effect. Beginning the second quarter of 2003, pre-termination fees were included, upon collection, under Others of GSM Revenues and are therefore no longer included for the purpose of calculating ARPUs.

Gross monthly ARPU for postpaid GSM subscribers in the first quarter of 2004 was Php1,762, compared to Php1,716 in the same period in 2003. On a net basis, postpaid ARPU increased by 7% to Php1,351 in the first quarter of 2004 from Php1,268 in the same period in 2003. Smart's GSM monthly gross blended ARPU was Php495 in the first quarter of 2004, compared to Php565 in the same period in 2003. Blended net monthly ARPU decreased by 8% to Php406 in the first quarter of 2004 from Php439 in the same period in 2003.

Smart's 50% share of Piltel's revenues from *Talk N Text* under a revenue-sharing agreement between Smart and Piltel is 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 number of subscribers at the beginning and the end of a month, 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 over the air via *Smart Load* in smaller denominations of Php30, Php60, Php115 and Php200, 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 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 included in our churn rate calculation for up to 121 days 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 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 quarter of 2004 was 3.3%, slightly higher than the 3.2% average monthly churn rate in the same period in 2003. In line with the various churn management initiatives implemented to address increased churn rates, in May 2003, Smart introduced *Smart Load*, an over-the-air electronic loading facility designed to make reloading of air time credits more convenient for, and accessible to consumers. These over-the-air reloads, which have both voice and text functions, are packaged in smaller denominations of Php30, Php60, Php115 and Php200, but have shorter validity periods of three days, six days, 12 days and 30 days, respectively. Starting with just 50,000 outlets when it was launched, *Smart Load* s distribution network now encompasses over 400,000 retail agents, approximately 80% of which are micro businesses. As of March 31, 2004, approximately 85% of *Smart Buddy* subscribers were using *Smart Load* as their reloading mechanism. In the first quarter of 2004, *Smart Load* has accounted for approximately 59% of sales derived from reloads.

On December 24, 2003, Smart introduced *Pasa Load* (literally means transfer load ), a derivative service of *Smart Load* that allows for Php10 load transfers to other *Smart Buddy* and Piltel *Talk N Text* subscribers. On January 25, 2004, denominations of Php2, Php5 and Php15 were added to the *Pasa Load* menu. All *Pasa Load* denominations have a one-day expiry period. We believe that *Smart Load* and *Pasa Load* will encourage subscribers to stay within our cellular network instead of churning and re-subscribing at a later time.

Beginning April 18, 2004, *Pasa Load* was also made available to Smart postpaid subscribers as well with identical denominations to those offered to prepaid subscribers. The denominations have a similar one-day load expiry. The sender will be billed the amount of the load and a Php1.00 transaction fee which will be added on top of the monthly service fee.

The average monthly churn rate for Smart's postpaid GSM subscribers for the first quarter of 2004 was 0.2%, compared to 3.6% in the same period in 2003. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is disconnected. Within this 44-day period, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

*Satellite, VSAT 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. Total revenues from these services for the first quarter of 2004 amounted to Php245 million, an increase of Php49 million, or 25%, from Php196 million in the same period in 2003.

***Fixed Line***

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Revenues generated from this business for the first quarter of 2004 totaled Php11,694 million, an increase of Php254 million, or 2%, from Php11,440 million for the same period in 2003. This increase was due to higher revenues generated from our international and national long distance services and data and other network services, partially offset by decreased revenues from local exchange service and miscellaneous services. As a percentage of our consolidated operating revenues, however, fixed line revenues decreased for the first quarter of 2004 to 43% from 50% in the same period in 2003 principally due to the continued strong growth of our wireless business.

The following table summarizes our consolidated operating revenues from our fixed line business for the three months ended March 31, 2004 and 2003 by service segment:

| | **Three Months Ended March 31,** | | | | | |
|---|---|---|---|---|---|---|
| | | | | | **Increase (Decrease)** | |
| | **2004** | **%** | **2003** | **%** | **Amount** | **%** |
| | | | **(Unaudited)** | | | |
| **(in millions)** | | | | | | |
| Fixed line services: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Local exchange | Php5,188 | 44 | Php5,248 | 46 | Php(60) | (1) |
| International long distance | 3,218 | 28 | 3,053 | 27 | 165 | 5 |
| National long distance | 1,798 | 15 | 1,638 | 14 | 160 | 10 |
| Data and other network | 1,432 | 12 | 1,422 | 12 | 10 | 1 |
| Miscellaneous | 58 | 1 | 79 | 1 | (21) | (27) |
| Total | Php11,694 | 100 | Php11,440 | 100 | Php254 | 2 |

*Local Exchange Service*

Our local exchange service revenues consist of:

- flat monthly fees for our postpaid service;
- installation charges and other one-time fees associated with the establishment of customer service;
- fixed charges paid by other telephone companies, charges retained by PLDT for calls terminating to cellular subscribers within the local area, and local access charges paid by cellular operators for calls by cellular subscribers that terminate to our local exchange network;
- revenues from usage of prepaid cards for calls within the local area and any unused peso value of expired prepaid cards;
- call revenues generated from payphones and coin-operated phones; 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 segment as of and for the three months ended March 31, 2004 and 2003:

**Three Months Ended March 31,**

| | 2004 | 2003 (Unaudited) | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| Consolidated local exchange revenues (in millions) | Php5,188 | Php5,248 | Php(60) | (1) |
| Number of fixed lines in service | | | | |
| PLDT Group | 2,150,453 | 2,111,721 | 38,732 | 2 |
| PLDT | 2,129,198 | 2,087,237 | 41,961 | 2 |
| Number of PLDT employees | 10,127 | 11,777 | (1,650) | (14) |
| Number of PLDT fixed lines in service per PLDT employee | 210 | 177 | 33 | 19 |

Revenues from our local exchange service for the first quarter of 2004 decreased by Php60 million, or 1%, to Php5,188 million from Php5,248 million for the same period in 2003. The decrease was primarily due to the (1) shifting subscriber preference from postpaid to prepaid services, which generate lower average revenue per subscriber, and (2) decline in installation revenues due to a promotion starting July 2003 which waived installation cost of subscribers in an effort to stimulate subscriber growth, partially offset by adjustments in our monthly local service rates. The percentage contribution of local exchange revenues to our total fixed line revenues also decreased for the first quarter of 2004 to 44% from 46% in for the same period in 2003.

Gross additions to PLDT's fixed lines in service for the first quarter of 2004 totaled 168,976, an increase of 76,347 from the gross additions of 92,629 for the same period in 2003. On a net basis, PLDT s fixed line additions for the first quarter of 2004 increased to 13,527 as against a decrease of 5,302 for the same period in 2003. While fixed line additions totaled 14,080 for PLDT s prepaid fixed line services, PLDT s postpaid fixed lines in service declined by 553 for the first quarter of 2004. As of March 31, 2004, PLDT s postpaid and prepaid fixed line subscribers totaled 1,757,814 and 371,384, respectively, which accounted for approximately 83% and 17%, respectively, of PLDT s 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 forms an important part of PLDT's overall churn and credit risk exposure management and subscriber retention strategy. Prepaid phone kits, each containing Php500 worth of pre-stored call credits, are sold for Php1,900 per unit. Prepaid subscribers are charged based on usage at a rate of Php1.00 per minute for local calls and the same rates are applicable to postpaid fixed line subscribers for national and international long distance calls.

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. Reloads are valid for two months for the Php500 and Php300 card. The lower denominated Php150 card, launched in September 2003, has an account life of 15 days. A prepaid fixed line subscriber is disconnected if that subscriber does not reload within one month for the Php500 card, four months for the Php300 card, and 15 days for the Php150 card after the expiry of the last reload. All sales of prepaid cards, whether through dealers or through PLDT's business offices, are non-refundable.

Pursuant to a currency exchange rate adjustment mechanism authorized by the Philippine National Telecommunications Commission, or the NTC, we adjust our monthly local service rates upward or downward by 1% for every Php0.10 change in the peso-to-dollar exchange rate relative to a base rate of Php11.00 to US$1.00. For the first quarter of 2004 and 2003, we implemented three upward adjustments in our monthly local service rates in both periods. The average peso-to-dollar rate for the first quarter of 2004 was Php55.991 to US$1.00, compared to the average of Php54.074 to US$1.00 for the same period in 2003. This change in the average peso-to-dollar rate translated to a peso depreciation of 4%, which resulted in an average net increase of 3% in our monthly local service rates for the first quarter of 2004.

To attract new fixed line subscribers and retain existing ones, PLDT has introduced various value-added services such as *Hype* in April 2003. *Hype* is a full two-way fixed line text messaging service, which allows subscribers to send and receive text messages to and from landline and mobile phones, and is capable of international text messaging. *Hype* also allows subscribers to join TV network-based and new PLDT-initiated texting services.

The ratio of PLDT fixed lines in service per PLDT employee improved from 177 as of March 31, 2003 to 210 as of March 31, 2004. This improvement resulted from the net decrease in PLDT s employee headcount. As of March 31, 2004, PLDT s workforce was reduced by 14% to 10,127 employees from 11,777 employees as of March 31, 2003, mainly on account of PLDT s manpower reduction program.

*International Long Distance Service*

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

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

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

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

The following table shows information about our international fixed line long distance business for the three months ended March 31, 2004 and 2003:

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | | | Increase (Decrease) | |
| | 2004 | 2003 | Amount | % |
| | | (Unaudited) | | |
| Consolidated international long distance revenues (in millions) | Php3,218 | Php3,053 | Php165 | 5 |
| Inbound | 2,601 | 2,478 | 123 | 5 |
| Outbound | 617 | 575 | 42 | 7 |
| International call volumes (in million minutes, except call ratio) | | | | |
| PLDT Group | 585 | 640 | (55) | (9) |
| Inbound | 547 | 595 | (48) | (8) |
| Outbound | 38 | 45 | (7) | (16) |
| Inbound-outbound call ratio | 14.4:1 | 13.2:1 | | |
| PLDT | 579 | 576 | 3 | 1 |
| Inbound | 542 | 532 | 10 | 2 |
| Outbound | 37 | 44 | (7) | (16) |
| Inbound-outbound call ratio | 14.6:1 | 12.1:1 | | |

Our consolidated international long distance revenues increased by Php165 million, or 5%, to Php3,218 million in the first quarter of 2004 from Php3,053 million in the same period in 2003, primarily as a result of an increase of our inbound international long distance revenues principally driven by an increase in average inbound termination rates. Likewise, the percentage contribution of international long distance revenues to our total fixed line revenues slightly increased to 28% in the first quarter of 2004 from 27% in the same period in 2003.

Our revenues from inbound international long distance calls in the first quarter of 2004 increased by Php123 million, or 5%, to Php2,601 million from Php2,478 million in the same period in 2003 primarily due to an increase in PLDT s average inbound termination rates and the positive impact of the depreciation of the average value of the peso relative to the U.S. dollar, partially offset by the effect of lower inbound call volumes.

Our inbound international long distance call volumes in the first quarter of 2004 decreased by 8% to 547 million minutes from 595 million minutes in the same period in 2003, primarily due to increased competition from alternative means of long distance communications, particularly e-mailing, international text messaging and internet telephony and more inbound calls terminating directly to cellular subscribers. In addition, the increase in our average termination rates has also resulted in reduced inbound call volumes, principally those being routed through direct facilities from the U.S. to the Philippines.

After lengthy negotiations commencing in May 2002 with carriers around the world, PLDT increased its average termination rates with carriers that account for a substantial portion of its international inbound traffic terminating on its fixed line network to approximately US$0.12 per minute effective February 1, 2003. Prior to the increase in termination rates, a substantial portion of PLDT s international inbound traffic terminating on its fixed line network was charged an average termination rate of approximately US$0.08 per minute. For further discussion, please see *Note 25 Other Matters U.S. Federal Communications Commission, or U.S. FCC, Ruling versus Philippine Telecommunications Companies* to the accompanying financial statements.

The depreciation of the peso contributed to the increase 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 prevailing exchange rates at the time of billing.

Our revenues from outbound international long distance calls in the first quarter of 2004 increased by Php42 million, or 7%, to Php617 million from Php575 million in the same period in 2004. The growth was primarily due to an increase in net average revenue per minute as a result of a decrease in our average settlement rate for foreign administrations in dollar terms by US$0.04 per minute.

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

Our outbound international long distance call volumes declined by 16% to 38 million minutes in the first quarter of 2004 from 45 million minutes in the same period in 2003, primarily due to cellular substitution (subscribers opting to use cellular for international outbound calls) and the popularity of alternative means of communications such as e-mailing, international text messaging and internet telephony.

*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 three months ended March 31, 2004 and 2003:

| | Three Months Ended March 31, | | Increase (Decrease) | |
|---|---|---|---|---|
| | 2004 | 2003 (Unaudited) | Amount | % |
| Consolidated national long distance revenues (in millions) | Php1,798 | Php1,638 | Php160 | 10 |
| National long distance call volumes (in million minutes) | | | | |
| PLDT Group | 489 | 500 | (11) | (2) |
| PLDT | 483 | 492 | (9) | (2) |

Our national long distance revenues increased by Php160 million, or 10%, to Php1,798 million in the first quarter of 2004 from Php1,638 million in the same period in 2003 as a result of increased national direct dial, or NDD, rates and more beneficial interconnection agreements with cellular operators. Accordingly, the percentage contribution of national long distance revenues to our total fixed line revenues increased to 15% in the first quarter of 2004 from 14% in the same period in 2003.

Effective March 1, 2003, the rate for NDD calls originating from PLDT subscribers and terminating to other local exchange carriers increased to Php5.00 per minute from a flat rate of Php4.50 per minute. In addition, NDD calls originating from and terminating to PLDT was also adjusted to Php5.00 per minute from a flat rate of Php4.50 per minute effective June 8, 2003.

Further, we have entered into more beneficial interconnection agreements with cellular operators. Beginning January 2004, our settlement rate to cellular operators of Php4.50 per minute was reduced to Php4.00 per minute for calls terminating to cellular subscribers. At the same time, the cellular operators settlement rate for calls terminating to PLDT subscribers increased from Php2.50 per minute to Php3.00 per minute. In 2003, certain local exchange carriers, previously under revenue sharing arrangements, have entered into access charging agreements with PLDT. Under the revenue sharing agreements, charges are generally apportioned 30% for the originating entity, 40% for the backbone owner and another 30% for the terminating entity. Under these access charging agreements, the originating carrier generally pays access charges of (1) Php0.50 per minute for short haul traffic and Php1.25 per minute for long haul traffic to the carrier owning the backbone network; and (2) Php1.00 per minute to the terminating carrier. This change in interconnection charges resulted in a 54% decrease in average revenue per minute for calls originating from and terminating to other local exchange carriers.

Our national long distance call volumes, however, decreased by approximately 2% to 489 million minutes in the first quarter of 2004 from 500 million minutes in the same period in 2003. Cellular substitution and the widespread availability and growing popularity of alternative non-voice means of communications, particularly cellular text messaging and e-mailing, have negatively affected call volumes.

Data and Other Network Services

In the first quarter of 2004, our data and other network services posted a revenue of Php1,432 million, an increase of Php10 million, or 1%, from Php1,422 million in the same period in 2003. The revenue contribution of this service segment to our total fixed line revenues remained relatively flat at 12% in the first quarters of 2004 and 2003.

Data and other network services we currently provide include traditional bandwidth services, broadband/packet-based/internet-based services and other packet-based switching services.

The foregoing services are used for domestic and international communications, broadband data transmission services, internet exchange services, private networking services, switch-based services and international packet-based services.

Traditional bandwidth services accounted for 40% of the total revenues from PLDT s data and other network services in the first quarter of 2004, broadband/IP-based services accounted for 54%, and other services accounted for the remaining 6%, compared to 55%, 39% and 6%, respectively, in the same period in 2003. These percentage changes indicate a continuing 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.

PLDT offers two residential internet service packages targeting separate markets: *PLDT Vibe* for light to medium internet users and *DSL* broadband for heavy internet users. As of March 31, 2004, the number of PLDT s fixed line subscribers that signed up for *PLDT Vibe* was 288,054, of which 160,711 were postpaid and 127,343 were prepaid subscribers, compared to 96,044 as of March 31, 2003, of which 72,263 were postpaid and 23,781 were prepaid subscribers, while the number of *DSL* subscribers reached 28,172 and 12,869 as of March 31, 2004 and 2003, respectively.

In March 2003, PLDT launched a number of data services, namely: *Continuum, iView* and *Encompass*, all under the *Brains* umbrella. *Brains Continuum* provides customers the ability to recover from service interruptions and offers network diversity, facility and hosting services in partnership with ePLDT. *Brains iView* enables customers to monitor the performance of their network, track bandwidth utilization patterns and identify the source of network problems. *Brains Encompass* provides a broad range of services for the customers managed networking needs, be it a wide area network or local area network.

During 2003, we also launched a variety of data network products and services to address the needs of large corporations, small and medium-sized enterprises and retail customers. These include: *Resort Solutions*, a network service that provides real-time communication links between the head office and remote offices of vacation resorts; *Shops.work,* a network service that allows the real-time linking of retail stores facilitating sales and inventory monitoring; *Embed,* a wholesale banking solution that enables banks to build a community among clients in a business-to-business or business-to-consumer arrangement; and *High Bandwidth Optical Services* or *HBOS*, a dedicated high-speed point-to-point optical access solution that enables data mirroring, storage area network and local area network connectivity within Metro Manila, which also offers an option for a virtually alternative data center.

*Miscellaneous*

Miscellaneous revenues are derived mostly from directory advertising and facilities rental. In the first quarter of 2004, these revenues decreased by Php21 million, or 27%, to Php58 million from Php79 million in the same period in 2003. The decline was mainly due to a decrease in royalty fee on account of a change in revenue sharing agreement from collection rate to a fixed/flat rate. Miscellaneous revenues accounted for approximately 1% of our total fixed line revenues in the first quarter of 2004 and 2003.

***Information and Communications Technology***

Our information and communications technology business is conducted by ePLDT, a wholly-owned subsidiary of PLDT. 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 is focused on developing its call center business which capitalizes on the availability of English-speaking labor in the Philippines. The call center service business is being undertaken by the following wholly-owned subsidiaries:

• Vocativ Systems, Inc., or Vocativ, which owns and operates a 722-seat call center facility with 883 customer service representatives, or CSRs, exclusively for clients of a global provider of customer relationship management services; and

• Parlance Systems, Inc., or Parlance, which owns and operates a 522-seat call center facility with 619 CSRs, exclusively for one of the largest direct-to-home satellite service providers in the United States for customer support and billing requirements.

ePLDT has also invested in a number of other e-commerce and internet-related businesses, including a 99.6% interest in Infocom, one of the country s leading internet service providers. Infocom offers consumer prepaid and postpaid internet access, corporate leased lines, dedicated dial-up, multi-user dial-up, broadband internet access thru *DSL* or *NOW* cable internet; web consulting, development and hosting. Please refer to *Note 9 Investments* to the accompanying financial statements for further discussion on ePLDT s other information and communications technology services.

In the first quarter of 2004, our information and communications technology business generated total revenues of Php442 million, an increase of Php85 million, or 24%, from the Php357 million in the same period in 2003. These revenues accounted for 2% of our consolidated operating revenues for the first quarter of 2004 and 2003. *Vitro*ä and others contributed revenues of Php111 million; ePLDT s call center business contributed revenues of Php241 million; and Infocom contributed revenues of Php90 million representing 25%, 55% and 20%, respectively, of the total revenues from our information and communications technology business in the first quarter of 2004, compared to 21%, 53% and 26% in the same period in 2003. Going forward, we expect revenues from our call center business to continue to contribute significantly to our information and communications technology revenues with the growing demand for call center services.

**Consolidated Operating Expenses**

Our consolidated operating expenses in the first quarter of 2004 increased by Php974 million, or 6%, to Php16,619 million from Php15,645 million in the same period in 2003. The increase was primarily due to higher non-cash expenses, mainly depreciation and amortization and higher cash expenses in our wireless business, mainly compensation and benefits and other operating costs. As a percentage of our consolidated operating revenues, however, consolidated operating expenses decreased to 61% in the first quarter of 2004 from 69% in the same period in 2003.

Wireless

Consolidated operating expenses associated with our wireless business in the first quarter of 2004 amounted to Php8,151 million, an increase of Php1,025 million, or 14%, from Php7,126 million in the same period in 2003. A significant portion of this increase was attributable to non-cash expenses mainly depreciation and amortization and provision for inventory obsolescence coupled with an increase in certain cash expenses. As a percentage of our wireless operating revenues, operating expenses associated with our wireless business decreased to 54% in the first quarter of 2004 from 65% in the same period in 2003.

The following table summarizes our consolidated wireless-related operating expenses for the three months ended March 31, 2004 and 2003 and the percentage of each expense item to the total:

| | **Three Months Ended March 31,** | | | | | |
|---|---|---|---|---|---|---|
| | | | | | **Increase (Decrerase)** | |
| | **2004** | **%** | **2003**(1) **(Unaudited)** | **%** | **Amount** | **%** |
| **(in millions)** | | | | | | |
| Wireless services | | | | | | |
| Depreciation and amortization(2) | Php2,985 | 37 | Php2,403 | 34 | Php582 | 24 |
| Selling and promotions | 1,800 | 22 | 1,943 | 27 | (143) | (7) |
| Compensation and benefits | 877 | 11 | 723 | 10 | 154 | 21 |
| Maintenance | 463 | 6 | 502 | 7 | (39) | (8) |
| Rent | 454 | 5 | 433 | 6 | 21 | 5 |
| Provision for doubtful accounts | 387 | 5 | 348 | 5 | 39 | 11 |
| Professional and other service fees | 192 | 2 | 147 | 2 | 45 | 31 |
| Insurance and security services | 214 | 3 | 175 | 3 | 39 | 22 |
| Taxes and licenses | | | | | | |