

FIRST PACIFIC COMPANY LIMITED
PRESS RELEASE

Thursday, 4 August 2005

**PLDT CONSOLIDATED NET INCOME UP 35% TO P16.8 BILLION;
CORE EARNINGS REACH P8 BILLION FOR 2nd QUARTER 2005, 15% UP FROM 1st QUARTER**

The attached press release was distributed today in Manila by Philippine Long Distance Telephone Company (PLDT), in which First Pacific Group has a 24.6 per cent economic interest, and a 31.6 per cent voting interest.

PLDT is the leading telecommunications service provider in the Philippines. It is based in Manila, and has common shares listed on the Philippine Stock Exchange and ADRs listed on the New York Stock Exchange and on the Archipelago Exchange. Through its three principal business groups – Wireless; Fixed Line; and Information and Communications Technology – PLDT offers a wide range of telecommunications services across the Philippines’ most extensive fiber optic backbone, cellular, fixed line and satellite networks.

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For more information, please contact:

Anabelle L. Chua

Tel: (632) 816-8213

Fax: (632) 844-9099

Anna V. Bengzon

Tel No: (632) 816-8024

Fax No: (632) 810-7138

Ramon R. Isberto

Tel: (632) 511-3101

Fax: (632) 893-5174

Further information can be obtained by visiting the web at www.pldt.com.ph.

**PLDT CONSOLIDATED NET INCOME UP 35% TO P16.8 BILLION;
CORE EARNINGS REACH ₱8 BILLION FOR 2nd QUARTER 2005, 15% UP FROM 1st QUARTER**

- PLDT reports consolidated net income of ₱16.8 billion for the first half 2005; adjusted net income at ₱15 billion, before foreign exchange gains and derivative transactions
- Core earnings for second quarter of ₱8 billion, a record quarterly high
- Cellular service revenues increase 8% to ₱35.4 billion
- Consolidated EBITDA reaches ₱37.5 billion; consolidated EBITDA margin maintained at 63% of service revenues
- Consolidated free cash flow surges to ₱27.4 billion, up from ₱18 billion in the same period in 2004
- PLDT Fixed Line reduces debt by US\$251 million; consolidated debt declines by US\$312 million

MANILA, Philippines, 4th August 2005 — Philippine Long Distance Telephone Company (“PLDT”) (PSE: TEL) (NYSE: PHI) today announced its financial results for the first half of 2005, reporting a consolidated net profit of ₱16.8 billion, an increase of 35% from the ₱12.4 billion net profit reported in the same period last year. Consolidated net income, before foreign exchange gains and derivative transactions, rose to ₱15 billion in the first half of 2005, 9% over the adjusted and restated net income of ₱13.8 billion in the first half of 2004. Service revenues for the PLDT Group increased by 3% to ₱59.5 billion while consolidated EBITDA improved to ₱37.5 billion.

Second quarter core earnings of ₱8 billion are the highest recorded to-date, beating by 4% our core earnings in the second quarter last year, when elections were held, and our first quarter core earnings this year by 15%.

Consolidated free cash flow grew by 52%, from ₱18 billion in the first half of 2004 to ₱27.4 billion in the same period in 2005. The PLDT Group now expects its debt reduction for the year to reach US\$600 million instead of the set target of US\$500 million. In addition to the PLDT Group reducing debts by US\$312 million in the first six months of 2005, PLDT paid, on 1st August, its 2005 maturing bond obligations of US\$110 million.

Cellular: Moving On

Cellular subsidiaries, Smart Communications, Inc. (“Smart”) and Pilipino Telephone Corporation (“Piltel”), continued their significant contributions to the rise in PLDT’s consolidated net income.

Consolidated cellular service revenues increased to ₱35.4 billion in the first half of 2005, 8% higher than the ₱33 billion realized in the first half last year. Service revenues of ₱18 billion in the second quarter were the highest recorded for such a period, besting revenues of the second quarter last year, which were boosted by election spending, and revenues of the fourth quarter 2004, which benefited from holiday traffic.

Consolidated cellular EBITDA grew by 1% to ₱22.8 billion from ₱22.5 billion. EBITDA for the cellular business in the second quarter increased to ₱11.7 billion, compared to an average quarterly EBITDA of ₱10.6 billion in 2004. The EBITDA margin of 65% in the second quarter of 2005 bettered the FY04 EBITDA margin of 63% and improved on the first quarter 2005 margin of 64%.

Net income, as adjusted for foreign exchange movements and derivative transactions, increased to ₱12.5 billion from ₱11.7 billion in the same period last year. Core earnings before foreign exchange gains improved quarter-on-quarter to ₱6.7 billion, another quarterly record high.

Net cellular activations totaled 1.5 million subscribers in the first half of 2005, bringing the PLDT Group's total cellular subscriber base to 20.8 million and maintaining its market share of about 58%. The PLDT Group's share of industry revenues was likewise maintained at 58%. Smart added approximately 1.2 million subscribers while *Talk 'N Text* added 352,000 subscribers to end the half with 15.8 and 5 million subscribers, respectively. Net activations in the second quarter of 537,000 were 49% lower than the 1 million recorded in the first quarter of 2005 and 68% lower than the 1.7 million activations in second quarter of 2004. With the termination of SIM-swapping activities beginning May 2005, it is anticipated that churn rates will increase for the rest of the year as subscribers acquired through SIM-swapping leave the system. As it takes four to six months for churn to manifest itself in the system, the downward trend in subscriber additions is expected to be more pronounced in the second half of the year and could lead to some months of net disconnections. This development in itself is not expected to affect Smart's underlying revenues.

Smart has continued its *Smart 25⁸ Unlimited Call and Text* promo wherein Smart and *Talk 'N Text* prepaid subscribers can avail of unlimited on-network calls or text. The promotion has been renewed a number of times, with modifications, and a total of 1.4 million subscribers were using the unlimited text service at the end of June 2005. In addition to enhancing revenues, *Smart 25⁸* also allows Smart to maximize utilization of its network capacity, particularly for SMS.

Smart's cellular network has expanded to 36 switches and over 5,600 base stations covering 98% of the country's population. Capital expenditures were ₱3.6 billion in the first half of 2005. Full year capex is expected to be approximately ₱8 billion, or ₱2 billion lower than the earlier guidance of ₱10 billion.

With the reduced capex spending, free cash flow doubled to ₱20 billion in the first half of 2005 from ₱10 billion in the first half of 2004. Smart has already paid cash dividends of ₱14 billion to PLDT in the first half of 2005, in line with its commitment to make a total distribution of at least ₱20 billion for 2005.

"The record performance of our cellular business in the second quarter this year only validates our stance that revenues and cash flows are what ultimately matter," explained **Napoleon L. Nazareno, President and CEO of PLDT and Smart.**

PLDT Fixed Line: Looking Ahead

Fixed Line service revenues were stable at ₱24.2 billion in the first half of 2005. Quarter-on-quarter, fixed line revenues grew 5% to ₱12.4 billion, as the increase in data revenues more than offset the decline in the NLD and local exchange sectors.

Postpaid subscribers increased by 12,200 in the second quarter alone – a complete reversal of previous quarters' trends of net disconnections - fueled by the "₱10 per call promotion" for NLD calls. DSL subscribers surpassed 68,800 at the end of June 2005. This subscriber base is expected to increase even further as network coverage expands and bundling schemes are introduced.

Cash operating expenses were up 3% due to higher selling and promotion expenses associated with ongoing NLD and DSL marketing initiatives. As a result, EBITDA declined 1% to ₱13.6 billion while the EBITDA margin dropped slightly to 56% in the first half this year from 57% in the same period last year.

Capital expenditures for the first half of 2005 were at ₱3.1 billion with the ongoing upgrade of the fixed line network to a Next Generation Network or NGN. This capex was utilized for requirements of the IP core, transmission and access facilities. Full year capex is anticipated to be ₱7 billion.

PLDT's free cash flow in the first six months of 2005 remained strong at ₱7.1 billion, supplemented by the ₱14 billion dividend from Smart. Accordingly, PLDT Fixed Line reduced its debts by US\$251 million during the period, thus bringing its debt balance to US\$1.7 billion as of the end of June 2005, from a peak of over US\$3 billion five years ago. Interest costs decreased by almost ₱1 billion to ₱4.7 billion, reflecting the benefits of PLDT Fixed Line's aggressive deleveraging strategy.

"The next two years will be a "re-investment and re-invention" phase for PLDT Fixed, as we pursue our goal of progressing to our NGN in order to simplify our network architecture, develop new revenue streams and growth opportunities and as closer coordination between our fixed and wireless businesses continue," concluded **Nazareno**.

ePLDT: Holding Its Own

ePLDT, the Group's information and communications technology arm, reported a profit of ₱83 million for the first half of 2005. Service revenues grew 39% to ₱1.3 billion from ₱953 million in the same period last year as all of its business segments posted improved results.

Consolidated call center revenues continued to lead the way, growing 52% to ₱836 million as a result of continued growth in transaction volumes and increased capacity utilization. Combined call center seats reached 3,179, making ePLDT one of the largest call center operators in the country. Ongoing expansion will increase capacity to 4,800 seats by the end of this year with two additional sites being put up.

ePLDT's other business segments, which include *Netopia*TM, *Vitro*TM Data Center and other Internet-related services, registered significant revenue improvements as well, as their

combined service revenues increased by 22% to ₱492 million for the first half of 2005, compared to ₱402 million in the same period last year. *Netopia*TM has expanded its network to 163 stores with over 7,500 PC terminals as of the end of June 2005, and this expansion is expected to continue throughout the year.

“This positive trend of revenue growth bodes well for our performance for the rest of the year. Through our key businesses, we will continue our efforts to foster and extend the PC and IT cultures in order to drive demand for broadband in the future”, said **Ray C. Espinosa, ePLDT President and CEO**.

PLDT Group: Transformation Underway

“Despite somewhat unsettling times, PLDT continues to show its resilience. We certainly don’t expect the second half of the year to be any easier, but we remain focused on the tasks at hand – maintaining growth in profitability, continuing the deleveraging efforts and increasing cash returns to our shareholders,” said **Manuel V. Pangilinan, PLDT Chairman**.

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	PLDT Consolidated	
	For the first half ended June 30,	
	2005	2004^(a)
Service revenues	59,522	57,841
Non-service revenues	1,422	4,311
Other income	194	147
	61,138	62,299
Expenses	38,627	46,040
Income before income tax	22,511	16,259
Provision for (benefit from) income tax	5,694	3,811
Net income - As Reported	16,817	12,423
EPS, Basic^(b)	94.00	68.78
EPS, Diluted^(b)	88.83	68.00
Net income before FX and derivatives^(c)	15,042	13,801
EPS, Basic^(d)	83.77	76.91
EPS, Diluted^(d)	79.43	75.42

(a) As restated to reflect adoption of International Accounting Standards

(b) EPS based on reported net income

(c) Net income excluding the net impact of gains/losses on FX and derivative transactions

(d) EPS based on net income excluding the net impact of gains/losses on FX and derivative transactions

This press release may contain some statements which constitute “forward-looking statements” that are subject to a number of risks and uncertainties that could affect PLDT’s business and results of operations. Although PLDT believes that expectations reflected in any forward-looking statements are reasonable, it can give no guarantee of future performance, action or events.

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About PLDT

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PLDT is listed on the Philippine Stock Exchange (PSE:TEL) and its American depository shares are listed on the New York Stock Exchange (NYSE:PHI) and the Archipelago Exchange. PLDT has one of the largest market capitalizations among Philippine listed companies.

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