PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 6-K
August 05, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6 -K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

Of the Securities Exchange Act of 1934

For the month of August 2008

Commission File Number 1-03006

Philippine Long Distance Telephone Company

(Exact Name of Registrant as specified in its Charter)

Ramon Cojuangco Building

Makati Avenue

Makati City

Philippines

(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F: y Form 40-F: o

(Indicate by check mark whether by furnishing the information contained in this form, the registrant is also thereby furnishing the information to the commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act 1934.)

Yes: o No: y

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____)

Enclosure:

Announcement date: August 5, 2008

Exhibit 1.1 Management s Discussion and Analysis of Financial Condition and Results of Operations

Consolidated Financial Statements as at June 30, 2008 (unaudited) and December 31, 2007 (audited) and for the six months ended June 30, 2008 and 2007

SIGNATURES

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

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

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

SEC Number **PW-55**
File Number

PHILIPPINE LONG DISTANCE

TELEPHONE COMPANY

(Company s Full Name)

Ramon Cojuangco Building

Makati Avenue, Makati City

(Company s Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)

(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

June 30, 2008

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

August 5, 2008

Securities & Exchange Commission

Money Market Operations Department

SEC Building, EDSA

Mandaluyong City

Attention: Director Justina Callangan

Corporations Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code, we submit herewith five (5) copies of SEC Form 17-Q with Management s Discussion and Analysis and accompanying unaudited financial statements of the Company for the six (6) months ended June 30, 2008.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

/s/ Ma. Lourdes C. Rausa-Chan

MA. LOURDES C. RAUSA-CHAN

Corporate Secretary

COVER SHEET

P	W	-	5	5

S.E.C. Registration No.

P	H	I	L	I	P	P	I	N	E	L	O	N	G	D	I	S	T	A	N	C	E

T	E	L	E	P	H	O	N	E	C	O	M	P	A	N	Y

(Company s Full Name)

R	A	M	O	N	C	O	J	U	A	N	G	C	O	B	L	D	G	.

M	A	K	A	T	I	A	V	E	.	M	A	K	A	T	I	C	I	T	Y

(Business Address: No. Street City/Town/Province)

JUNE CHERYL A. CABAL-FURIGAY	816-8534
Contact Person	Company Telephone Number

1	2	3	1	SEC FORM 17-Q	0	6	Every 2nd Tuesday
Month		Day		FORM TYPE	Month	Day	
Fiscal Year					Annual Meeting		

C	F	D		N/A
Dept. Requiring this Doc.				Amended Articles Number/Section

Total Amount of Borrowings

2,184,303

N/A

As at June 30, 2008

N/A

Total No. of Stockholders

Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number		LCU

Document I.D.		Cashier

STAMPS

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE (SRC) AND

SRC 17 (2) (b) THEREUNDER

1. For the quarterly period ended June 30, 2008

-

2. SEC Identification Number PW-55 3. BIR Tax Identification No. 000-488-793

4. Philippine Long Distance Telephone Company

Exact name of registrant as specified in its charter

5. Republic of the Philippines

Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

7. Ramon Cojuangco Building, Makati Avenue, Makati City 0721

Address of registrant s principal office Postal Code

8. (632) 816-8556

Registrant s telephone number, including area code

9. Not Applicable

Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class Number of Shares of Common Stock Outstanding

-

Common Capital Stock, Php5 par value 188,066,928 shares as at June 30, 2008

-

11. Are any or all of these securities listed on the Philippine Stock Exchange?

Yes [X] No [ ]

12. Check whether the registrant

(a) has filed all reports required to be filed by Section 17 of the SRC during the preceding ten months (or for such shorter period that the registrant was required to file such reports):

Yes [X] No [ ]

(b) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Our consolidated financial statements as at June 30, 2008 (unaudited) and December 31, 2007 (audited) and for the six months ended June 30, 2008 and 2007 (unaudited) and related notes (pages F-1 to F-95) are filed as part of this report on Form 17-Q.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

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 (please see Note 2 Summary of Significant Accounting Policies and Practices to the accompanying unaudited consolidated financial statements for a list of these subsidiaries, including a description of their respective principal business activities).

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and the related notes. Our unaudited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with Philippine Financial Reporting Standards, which differ in certain significant respects from International Financial Reporting Standards and generally accepted accounting principles in the United States.

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to pesos, Philippine pesos or Php are to the lawful currency of the Philippines; all references to U.S. dollars, US$ or dollars are to the lawful currency of the United States; all references to Japanese yen, JP¥ or ¥ are to the lawful currency of Japan and all references to Euro or are to the lawful currency of the European Union. Translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php44.896 to US$1.00, the volume weighted average exchange rate at June 30, 2008 quoted through the Philippine Dealing System.

Some information in this report may contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. We have based these

forward-looking statements on our current beliefs, expectations and intentions as to facts, actions and events that will or may occur in the future. Such statements generally are identified by forward-looking words such as believe, plan, anticipate, continue, estimate, expect, may, will or other similar words.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith, and we believe that they are reasonable in all material respects. However, we caution you that forward-looking statements and assumed facts or bases almost always vary from actual results, and the differences between the results implied by the forward-looking statements and assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the description of risks and cautionary statements in this report. You should also keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as at the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this report after the date hereof. In light of these risks and uncertainties, any forward-looking statement made in this report or elsewhere might not occur.

Financial Highlights and Key Performance Indicators

(in millions, except for operational data, exchange rates and earnings per common share)	**June 30, 2008** (Unaudited)	**December 31, 2007** (Audited)	**Increase (Decrease) Amount**	**%**
Consolidated Balance Sheets				
Total assets	Php237,158	Php240,158	(Php3,000)	(1)
Property, plant and equipment net	155,778	159,414	(3,636)	(2)
Cash and cash equivalents and short-term investments	31,602	30,862	740	2
Total equity	105,928	112,511	(6,583)	(6)
Notes payable and long-term debt	66,515	60,640	5,875	10
Net debt(1) to equity ratio	0.33x	0.26x		

	Six Months Ended June 30,		**Increase (Decrease)**	
	2008	**2007**(2)	**Amount**	**%**
	(Unaudited)			
Consolidated Statements of Income				
Revenues and other income	Php77,615	Php70,551	Php7,064	10
Expenses	47,546	44,442	3,104	7
Income before income tax	30,069	26,109	3,960	15
Net income attributable to equity holders of PLDT	19,270	17,079	2,191	13
Pre-tax income margin	39%	37%		
Net income margin	25%	25%		
Earnings per common share				
Basic	100.90	89.35	11.55	13
Diluted	100.89	89.05	11.84	13
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	Php40,385	Php38,524	Php1,861	5
Net cash used in investing activities	8,603	19,865	(11,262)	(57)
Capital expenditures	*8,684*	*9,966*	*(1,282)*	*(13)*
Net cash used in financing activities	31,272	22,499	8,773	39
Operational Data				
Number of cellular subscribers	33,241,026	27,106,108	6,134,918	23
Number of fixed line subscribers	1,788,571	1,819,943	(31,372)	(2)
Number of broadband subscribers	757,670	422,580	335,090	79
Fixed Line	*335,016*	*200,029*	*134,987*	*67*
Wireless	*422,654*	*222,551*	*200,103*	*90*
Number of employees	30,584	28,847	1,737	6
Fixed Line	*8,028*	*8,670*	*(642)*	*(7)*
Wireless	*5,592*	*5,231*	*361*	*7*
Information and Communications Technology	*16,964*	*14,946*	*2,018*	*14*

Exchange Rates	**Php per US$**
June 30, 2008	Php44.896
December 31, 2007	41.411
June 30, 2007	46.246
December 31, 2006	49.045

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

(2) 2007 has been restated to reflect the change in revenue recognition policy for installation fees where we elected to defer and amortize our installation fees and corresponding costs over the expected average period of the customer relationship of our fixed line subscribers.

Overview

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

- *Wireless* wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Pilipino Telephone Corporation, or Piltel, our cellular service providers; Smart Broadband, Inc., or SBI, our wireless broadband provider; Wolfpac Mobile, Inc., or Wolfpac, our wireless content operator; Mabuhay Satellite Corporation, or Mabuhay Satellite and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator;

- *Fixed Line* fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT s subsidiaries, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Maratel, Inc., Piltel (on June 4, 2008, PLDT acquired the fixed line assets of Piltel), PLDT Global Corporation, or PLDT Global, Smart-NTT Multimedia, Inc., and Bonifacio Communications Corporation, which together account for approximately 2% of our consolidated fixed line subscribers; and

- *Information and Communications Technology, or ICT* information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT; knowledge processing solutions provided by SPi Technologies, Inc. and its subsidiaries, or SPi Group; customer interaction services provided under the umbrella brand name *ePLDT Ventus*, through ePLDT Ventus, Inc., or Ventus, Parlance Systems, Inc., or Parlance, and Vocativ Systems, Inc., or Vocativ; internet access and online gaming services provided by Infocom Technologies, Inc., or Infocom, Digital Paradise, Inc., or Digital Paradise, netGames, Inc., or netGames, and Level Up!, Inc., or Level Up!; and e-commerce, and IT-related services

provided by other investees of ePLDT, as discussed in *Note 9 Investments in Associates and Joint Ventures* to the accompanying unaudited consolidated financial statements.

We registered revenues and other income of Php77,615 million in the first half of 2008, an increase of Php7,064 million, or 10%, as compared with Php70,551 million in the same period in 2007 primarily due to a gain on derivative transactions of Php4,001 million in the first half of 2008 and an increase in our service revenues by Php3,206 million largely from our wireless business.

Expenses increased by Php3,104 million, or 7%, to Php47,546 million in the first half of 2008 from Php44,442 million in the same period in 2007, largely resulting from increases in foreign exchange losses, repairs and maintenance and selling and promotions expenses and, partly offset by loss on derivative transactions in the first half of 2007, lower financing costs, compensation and employee benefits, and cost of sales.

Net income attributable to equity holders of PLDT increased by Php2,191 million, or 13%, to Php19,270 million in the first half of 2008 from Php17,079 million in the same period in 2007. Consequently, our basic and diluted earnings per common share increased to Php100.90 and Php100.89 in the first half of 2008 from Php89.35 and Php89.05 in the same period in 2007, respectively.

Results of Operations

The table below shows the contribution by each of our business segments to our unaudited revenues and other income, expenses and net income for the six months ended June 30, 2008 and 2007. Most of our revenues and other income are derived from our operations within the Philippines.

	Wireless	**Fixed Line**	**ICT**	**Inter-segment Transactions**	**Total**
			(in millions)		
For the six months ended June 30, 2008					
Revenues and other income	Php47,398	Php30,129	Php5,171	(Php5,083)	Php77,615
Service	45,779	24,582	4,964	(4,978)	70,347
Non-service	910	179	201	(35)	1,255
Gain (loss) on derivative transactions net	(148)	4,188	(31)	(8)	4,001
Interest income	652	227	9		888
Others	205	953	28	(62)	1,124
Expenses	25,528	21,888	5,169	(5,039)	47,546
Income before income tax	21,870	8,241	2	(44)	30,069
Net income for the period	14,251	5,417	8	(44)	19,632

Net income attributable to equity holders of PLDT	13,869		5,415		30		(44)	19,270	
For the six months ended June 30, 2007(1)									
Revenues and other income	45,696		24,379		4,938		(4,462)	70,551	
Service	42,964		23,709		4,806		(4,338)	67,141	
Non-service	1,142		89		162		(77)	1,316	
Interest income	499		139		8			646	
Foreign exchange gains (losses) net	992		54		(51)			995	
Others	99		388		13		(47)	453	
Expenses	23,134		20,797		4,973		(4,462)	44,442	
Income (loss) before income tax	22,562		3,582		(35)			26,109	
Net income for the period	15,150		2,199		3			17,352	
Net income attributable to equity holders of PLDT	14,857		2,197		25			17,079	
Increase (Decrease)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**Amount**	**%**
Revenues and other income	Php1,702	4	Php5,750	24	Php233	5	(Php621)	Php7,064	10
Service	2,815	7	873	4	158	3	(640)	3,206	5
Non-service	(232)	(20)	90	101	39	24	42	(61)	(5)
Gain (loss) on derivative transactions net	(148)	(100)	4,188	100	(31)	(100)	(8)	4,001	100
Interest income	153	31	88	63	1	13		242	37
Foreign exchange gains (losses) net	(992)	(100)	(54)	(100)	51	100		(995)	(100)
Others	106	107	565	146	15	115	(15)	671	148
Expenses	2,394	10	1,091	5	196	4	(577)	3,104	7
Income (loss) before income tax	(692)	(3)	4,659	130	37	106	(44)	3,960	15
Net income for the period	(899)	(6)	3,218	146	5	167	(44)	2,280	13
Net income attributable to equity holders of PLDT	(988)	(7)	3,218	146	5	20	(44)	2,191	13

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(1) 2007 has been restated to reflect the change in revenue recognition policy for installation fees where we elected to defer and amortize our installation fees and corresponding costs over the expected average period of the customer relationship of our fixed line subscribers.

Wireless

Total Revenues and Other Income

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

The following table summarizes our unaudited total revenues and other income from our wireless business for the six months ended June 30, 2008 and 2007 by service segment:

	Six Months Ended June 30,					
					Increase (Decrease)	
	2008	**%**	**2007**	**%**	**Amount**	**%**
			(in millions)			
Wireless Services:						
Service revenues						
Cellular	Php43,013	91	Php41,082	90	Php1,931	5
Wireless broadband, satellite and others	2,766	6	1,882	4	884	47
	45,779	97	42,964	94	2,815	7
Non-Service Revenues						
Sale of cellular handsets and SIM-packs	910	2	1,142	3	(232)	(20)
Interest income	652	1	499	1	153	31
Foreign exchange gains net			992	2	992	(100)
Loss on derivative transactions net	(148)				(148)	(100)
Others	205		99		106	107
Total Wireless Revenues and Other Income	Php47,398	100	Php45,696	100	Php1,702	4

Service Revenues

Our wireless service revenues increased by Php2,815 million, or 7%, to Php45,779 million in the first half of 2008 as compared with Php42,964 million in the same period in 2007, mainly as a result of the growth in the cellular and wireless broadband subscriber base. Short messaging service, or SMS, benefited from the larger subscriber base; voice

revenues declined, however, as the unfavorable effect of a lower average Philippine peso to the U.S. dollar exchange rate on our dollar-linked revenues offset the increase in call volumes. As a percentage of our total wireless revenues and other income, service revenues contributed 97% in the first half of 2008 as compared with 94% in the same period in 2007.

Cellular Service

Our cellular service revenues consist of: (i) revenues derived from actual usage of the network by prepaid subscribers and any unused peso value of expired prepaid cards or electronic air time loads, net of content costs and discounts given to dealers and retailers; (ii) monthly service fees from postpaid subscribers, including (a) toll charges for national and international long distance calls; (b) charges for calls and text messages in excess of allocated free local calls and text messages, respectively; and (c) charges for value-added services, net of related content provider costs; (iii) 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 services; and (iv) other charges, including those for reconnection and migration.

Our cellular service revenues in the first half of 2008 amounted to Php43,013 million, an increase of Php1,931 million, or 5%, from Php41,082 million in the same period in 2007. Cellular service revenues accounted for 94% of our wireless service revenues in the first half of 2008 as compared with 96% in the same period in 2007.

Smart markets cellular communications services nationwide under the brand names *Smart Buddy, Smart Gold* and *Smart Infinity. Smart Buddy* is a prepaid service while *Smart Gold* and *Smart Infinity* are postpaid services, which are all provided through Smart's digital network. Piltel markets its cellular prepaid service under the brand name *Talk N Text* which is also provided through Smart s network.

Smart and Piltel have focused on segmenting the market by offering sector-specific, value-driven packages for its prepaid subscribers. These include new varieties of our top-up service which provide a fixed number of messages with prescribed validity periods and call packages which allow a fixed number of calls of preset duration. Starting out as purely on-network (Smart-to-Smart) packages, Smart s top-up services now offer text message bundles available to all networks. Smart also continues to offer *Smart 258*, a registration-based service which offers unlimited on-network (Smart-to-Smart) text messaging in various load denominations with designated expiration periods. In addition, Smart has a roster of 3G services which include video calling, video streaming, high-speed internet browsing and downloading of special 3G content, offered at rates similar to those of 2G services.

The following table summarizes the unaudited key measures of our cellular business as at and for the six months ended June 30, 2008 and 2007:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2008	2007	Amount	%
	(in millions)			
Cellular service revenues	Php43,013	Php41,082	Php1,931	5
By service type	*41,879*	*40,026*	*1,853*	*5*
Prepaid	38,805	37,088	1,717	5
Postpaid	3,074	2,938	136	5
By component	*41,879*	*40,026*	*1,853*	*5*
Voice	18,116	18,550	(434)	(2)
Data	23,763	21,476	2,287	11
Others(1)	*1,134*	*1,056*	*78*	*7*

(1) Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, revenues from Smart s public calling offices and a small number of leased line contracts, revenues from Wolfpac and other Smart subsidiaries and revenue share in PLDT s WeRoam and PLDT Landline Plus services.

	As at June 30,			
			Increase	
	2008	2007	Amount	%
Cellular subscriber base	33,241,026	27,106,108	6,134,918	23
Prepaid	32,893,002	26,773,221	6,119,781	23
Smart	*20,410,065*	*18,813,401*	*1,596,664*	*8*
Piltel	*12,482,937*	*7,959,820*	*4,523,117*	*57*
Postpaid	348,024	332,887	15,137	5

	Six Months Ended June 30,			
			Increase (Decrease)	
	2008	2007	Amount	%
Systemwide traffic volumes (in millions)				
Calls (in minutes)	3,317	3,104	213	7
Domestic outbound	1,940	1,869	71	4
International	1,377	1,235	142	11
Inbound	*1,265*	*1,138*	*127*	*11*
Outbound	*112*	*97*	*15*	*15*
SMS count	121,354	115,067	6,287	5

Text messages	120,515	114,003	6,512	6
Domestic	120,369	113,876	6,493	6
Bucket-Priced	*107,321*	*100,319*	*7,002*	*7*
Standard	*13,048*	*13,557*	*(509)*	*(4)*
International	146	127	19	15
Value-Added Services	824	1,041	(217)	(21)
Financial Services	15	23	(8)	(35)

Revenues attributable to our cellular prepaid service amounted to Php38,805 million in the first half of 2008, a 5% increase over the Php37,088 million earned in the same period in 2007. Prepaid service revenues in the first half of 2008 and 2007 accounted for 93% of voice and data revenues. Revenues attributable to Smart s postpaid service amounted to Php3,074 million in the first half of 2008, a 5% increase over the Php2,938 million earned in the same period in 2007, and accounted for 7% of voice and data revenues in the first half of 2008 and 2007.

Voice Services

Cellular revenues from voice services, which include all voice traffic and voice value-added services such as voice mail and international roaming, decreased by Php434 million to Php18,116 million in the first half of 2008 from Php18,550 million in the same period in 2007 primarily due to the unfavorable effect on international revenues of a lower Philippine peso to the U.S. dollar exchange rate, partly offset by an increase in outbound domestic call traffic as well as in outbound and inbound international traffic. Cellular voice services accounted for 42% of cellular service revenues in the first half of 2008 as compared with 45% in the same period in 2007.

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

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as value-added services, increased by Php2,287 million, or 11%, to Php23,763 million in the first half of 2008 from Php21,476 million in the same period in 2007. Cellular data services accounted for 55% of cellular service revenues in the first half of 2008 as compared with 52% in the same period in 2007.

The following table shows the breakdown of our unaudited cellular data revenues for the six months ended June 30, 2008 and 2007:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2008	**2007**	**Amount**	**%**
	(in millions)			
Text messaging				
Domestic	Php21,558	Php19,086	Php2,472	13
Bucket-Priced	*13,433*	*8,883*	*4,550*	*51*
Standard	*8,125*	*10,203*	*(2,078)*	*(20)*
International	968	846	122	14
	22,526	19,932	2,594	13
Value-added services				
Standard(1)	748	1,011	(263)	(26)
Rich Media(2)	227	156	71	46
Pasa Load	235	335	(100)	(30)
	1,210	1,502	(292)	(19)
Financial services				
Smart Money	25	40	(15)	(38)
Mobile Banking	2	2		
	27	42	(15)	(36)
Total	Php23,763	Php21,476	Php2,287	11

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(1) Includes standard services such as info-on-demand, ringtone and logo download, etc.

(2) Includes Multimedia Messaging System, Wireless Application Protocol, General Packet Radio Service, or GPRS, etc.

Text messaging-related services contributed revenues of Php22,526 million in the first half of 2008, an increase of Php2,594 million, or 13%, compared with Php19,932 million in the same period in 2007, and accounted for 95% and 93% of the total cellular data revenues in the first half of 2008 and 2007, respectively. The increase in revenues from text messaging-related services resulted mainly from Smart s various bucket-priced text promotional offerings which more than offset the decline in our standard texting services. Text messaging revenues from the various bucket plans totaled Php13,433 million in the first half of 2008, an increase of Php4,550 million, or 51%, compared with Php8,883 million in the same period in 2007. On the other hand, standard text messaging revenues declined by Php2,078 million, or 20%, to Php8,125 million in the first half of 2008 compared with Php10,203 million in the same period in 2007.

Standard text messages totaled 13,048 million in the first half of 2008, a decrease of 509 million, or 4%, from 13,557 million in the same period in 2007 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in the first half of 2008 totaled 107,321 million, an increase of 7,002 million, or 7%, as compared with 100,319 million in the same period in 2007. The minimal growth in bucket-priced text traffic relative to revenue growth is reflective of a shift from unlimited text packages to low-denominated text packages with a fixed number of SMS, resulting in improved yield per SMS and increased text revenues.

Value-added services, which contributed revenues of Php1,210 million in the first half of 2008, decreased by Php292 million, or 19%, from Php1,502 million in the same period in 2007 primarily due to lower usage of standard services and *Pasa Load* owing to the introduction of low-denomination top-ups, partially offset by higher usage of rich media services in the first half of 2008 as compared with the same period in 2007.

Subscriber Base, ARPU and Churn Rates

In the first half of 2008, Smart and Piltel cellular subscribers totaled 33,241,026, an increase of 6,134,918, or 23%, over their combined cellular subscriber base of 27,106,108 in the same period in 2007. Our cellular prepaid subscriber base grew by 23% to 32,893,002 in the first half of 2008 from 26,773,221 in the same period in 2007, while our postpaid subscriber base increased by 5% to 348,024 in the first half of 2008 from 332,887 in the same period in 2007. Prepaid and postpaid subscribers accounted for 99% and 1%, respectively, of our total subscriber base in the first half of 2008 and 2007. Prepaid and postpaid subscribers reflected net activations of 3,193,852 and 6,144, respectively, in the first half of 2008.

Our net subscriber activations for the six months ended June 30, 2008 and 2007 were as follows:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2008	**2007**	**Amount**	**%**
	(Unaudited)			
Prepaid	3,193,852	2,916,400	277,452	10
Smart	412,741	1,930,959	(1,518,218)	(79)
Piltel	2,781,111	985,441	1,795,670	182
Postpaid	6,144	14,324	(8,180)	(57)
Total	3,199,996	2,930,724	269,272	9

The following table summarizes our cellular ARPUs for the six months ended June 30, 2008 and 2007:

	Six Months Ended June 30,							
	Gross		**Decrease**		**Net**		**Decrease**	
	2008	**2007**	**Amount**	**%**	**2008**	**2007**	**Amount**	**%**
Prepaid								

Smart	Php293	Php324	(Php31)	(10)	Php231	Php266	(Php35)	(13)
Piltel	203	230	(27)	(12)	161	193	(32)	(17)
Prepaid Blended	261	296	(35)	(12)	206	245	(39)	(16)
Postpaid Smart	2,073	2,093	(20)	(1)	1,491	1,504	(13)	(1)
Prepaid and Postpaid Blended	281	319	(38)	(12)	220	261	(41)	(16)

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 discounts and allocated content-provider costs, including interconnection income but excluding inbound roaming revenues, by the average number of subscribers. Net monthly ARPU, on the other hand, is calculated based on revenues net of discounts and allocated content-provider costs and interconnection income net of interconnection expense. ARPU for any period of more than one month is calculated as the simple average of the monthly ARPUs in that period.

Prepaid service revenues consist mainly of charges for subscribers actual usage of their loads. Prepaid blended ARPU in the first half of 2008 was Php261, a decrease of 12%, compared with Php296 in the same period in 2007. The average outbound domestic voice, text messaging, value-added services and inbound revenue per subscriber declined in the first half of 2008 compared with the same period in 2007. On a net basis, prepaid blended ARPU in the first half of 2008 was Php206, a decrease of 16%, compared with Php245 in the same period in 2007.

Monthly ARPU for Smart s postpaid services is calculated in a manner similar to that of prepaid service, except that the revenues consist mainly of monthly service fees and charges on usage in excess of the monthly service fees.

Gross monthly ARPU for postpaid subscribers decreased by 1% to Php2,073 while net monthly ARPU also decreased by 1% to Php1,491 in the first half of 2008 as compared with Php2,093 and Php1,504 in the same period in 2007, respectively. Prepaid and postpaid monthly gross blended ARPU was Php281 in the first half of 2008, a decrease of 12%, compared with Php319 in the same period in 2007. Monthly net blended ARPU decreased by 16% to Php220 in the first half of 2008 as compared with Php261 in the same period in 2007.

Our quarterly prepaid and postpaid ARPUs for the six months ended June 30, 2008 and 2007 were as follows:

	Prepaid				**Postpaid**	
	Smart		**Piltel**		**Smart**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
2008						
First Quarter	Php292	Php230	Php207	Php163	Php2,013	Php1,472
Second Quarter	294	232	199	159	2,134	1,510

2007						
First Quarter	Php323	Php267	Php228	Php187	Php2,045	Php1,483
Second Quarter	324	265	233	198	2,141	1,526
Third Quarter	293	239	206	173	2,073	1,464
Fourth Quarter	307	244	216	177	2,105	1,467

Churn, or the rate at which existing subscribers have their service cancelled in a given period, is computed based on total disconnections in the period, net of reconnections in the case of postpaid subscribers, divided by the average of the number of subscribers at the beginning and at the end of a month, all divided by the number of months in the same period.

We recognize a prepaid cellular subscriber as an active subscriber when that subscriber activates and uses the SIM card in the subscriber s handset, which contains pre-stored air time. The pre-stored air time, which is equivalent to Php1 plus 50 free SMS for *Smart Buddy* and 25 free SMS for *Talk N Text*, can only be used upon purchase or reload of air time of any value. Subscribers can reload their air time by purchasing prepaid call and text cards; by purchasing additional air time over the air via *Smart Load, All Text* or *Smart Connect*; and by receiving loads of Php2, Php5, Php10 and Php15 via *Pasa Load*, or through their handsets using *Smart Money*. Reloads have validity periods ranging from one day to two months, depending on the amount reloaded. A prepaid cellular subscriber is disconnected if the subscriber does not reload within four months after the full usage or expiry of the last reload. Our current policy is to recognize a prepaid subscriber as active only when the subscriber activates and uses the SIM card and reloads at least once during the month of initial activation or in the immediate succeeding month.

For Smart prepaid, the average monthly churn rate for the first half of 2008 and 2007 were 4.8% and 2.9%, respectively, while the average monthly churn rate for *Talk N Text* subscribers in the first half of 2008 and 2007 were 4.2% and 3.4%, respectively.

The average monthly churn rate for Smart's postpaid subscribers for the first half of 2008 was 1.4% compared with 1.1% in the same period in 2007. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is disconnected. Within this 44-day period, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

Wireless Broadband, Satellite and Other Services

Our revenues from wireless broadband, satellite and other services consist mainly of wireless broadband service revenues from SBI, rentals received for the lease of Mabuhay Satellite s transponders, charges for ACeS Philippines satellite information and messaging services and service revenues generated from PLDT Global s subsidiaries. Gross revenues from these services for the first half of 2008 amounted to Php2,766 million, an increase of Php884 million,

or 47%, from Php1,882 million in the same period in 2007 principally due to the growth in our wireless broadband business partially offset by lower satellite transponder rental revenues owing to lower rental charges and number of transponders being leased out, and the peso appreciation in 2007.

SBI offers a number of wireless broadband services and had 407,916 subscribers in the first half of 2008 as compared with 210,069 in the same period in 2007. *SmartBro*, SBI s fixed wireless broadband service linked to Smart s wireless broadband-enabled base stations, allows people to connect to the internet using an outdoor aerial antenna installed in a subscriber s home. Wireless broadband revenues contributed Php1,948 million in the first half of 2008, increasing by Php1,018 million, or 109%, from Php930 million in the same period in 2007.

On November 22, 2007, we introduced *SmartBro Plug-It* which offers instant internet access, through the use of a wireless modem, in places where there is Smart network coverage. Subscribers to this plan simply have to plug the data modem in order to access the internet with speeds ranging from 384 to 512 kbps. The monthly service fee of Php799 includes 40 hours per month of free internet usage. A one-time charge for the modem costs Php1,200. On April 13, 2008, we launched the *SmartBro Plug-It Prepaid* which offers 30-minute internet access for every Php10 worth of load.

We also offer *PLDT WeRoam*, a wireless broadband service, running on the PLDT Group s nationwide wireless network (using GPRS, EDGE and WiFi technologies). Principally targeted at the corporate market, this service had 14,738 subscribers in the first half of 2008 compared with 12,482 subscribers in the same period in 2007 and contributed Php83 million to our data revenues, increasing by Php18 million, or 28%, from Php65 million.

Non-service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets and cellular SIM-packs.

Our wireless non-service revenues decreased by Php232 million, or 20%, to Php910 million in the first half of 2008 as compared with Php1,142 million in the same period in 2007 primarily due to lower average revenue per SIM-pack and a lower quantity of phonekits sold, partly offset by a higher volume of SIM-packs sold in the first half of 2008.

Interest Income

Our wireless interest income increased by Php153 million, or 31%, to Php652 million in the first half of 2008 as compared with Php499 million in the same period in 2007 primarily due to a higher average interest rate and higher level of investments in the first half of 2008.

Foreign Exchange Gains net

Foreign exchange gains net amounted to Php992 million in the first half of 2007 primarily due to a gain on revaluation of foreign currency-denominated liabilities mainly as a result of the peso appreciation in the first half of 2007.

Loss on Derivative Transactions net

Loss on derivative transactions net of Php148 million in the first half of 2008 relates to the loss in the mark-to-market valuation of forward contracts and embedded derivatives on service and purchase contracts.

Others

All other income/gains such as rental income, gains on disposal of property are included under this classification. Our wireless business segment generated other income of Php205 million in the first half of 2008, an increase of Php106 million, or 107%, as compared with Php99 million in the same period in 2007 primarily due to recovery of costs and of inventory losses and increase in rental income, partly offset by lower gain on disposal of fixed assets.

Expenses

Expenses associated with our wireless business in the first half of 2008 amounted to Php25,528 million, an increase of Php2,394 million, or 10%, from Php23,134 million in the same period in 2007. A significant portion of this increase was attributable to foreign exchange loss, rent, selling and promotions expenses, repairs and maintenance, depreciation and amortization, and taxes and licenses, partially offset by lower cost of sales and financing costs. As a percentage of our total wireless revenues and other income, expenses associated with our wireless business accounted for 54% and 51% in the first half of 2008 and 2007, respectively.

Cellular business expenses accounted for 91% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 9% of our wireless business expenses in the first half of 2008 compared with 93% and 7%, respectively, in the same period in 2007.

The following table summarizes the breakdown of our unaudited total wireless-related expenses for the six months ended June 30, 2008 and 2007 and the percentage of each expense item to the total:

	Six Months Ended June 30,					
					Increase (Decrease)	
	2008	%	2007	%	Amount	%
			(in millions)			
Wireless Services:						
Depreciation and amortization	Php6,188	24	Php5,893	25	Php295	5
Rent	4,604	18	4,091	18	513	13
Compensation and employee benefits(1)	2,381	10	2,456	11	(75)	(3)
Selling and promotions	2,206	9	1,795	8	411	23
Repairs and maintenance	2,156	8	1,778	8	378	21
Cost of sales	1,938	8	2,409	10	(471)	(20)
Professional and other contracted services	1,239	5	1,083	5	156	14
Foreign exchanges losses net	1,100	4			1,100	100
Financing costs net	1,098	4	1,224	5	(126)	(10)
Taxes and licenses	935	4	674	3	261	39
Communication, training and travel	524	2	526	2	(2)	
Insurance and security services	352	1	380	2	(28)	(7)
Asset impairment	223	1	198	1	25	13
Amortization of intangible assets	66		85		(19)	(22)
Gain on derivative transactions net			(7)		7	100
Other expenses	518	2	549	2	(31)	(6)
Total	Php25,528	100	Php23,134	100	Php2,394	10

(1) Includes salaries and employee benefits, long-term incentive plan, or LTIP, pension and manpower rightsizing program, or MRP, costs.

Depreciation and amortization charges increased by Php295 million, or 5%, to Php6,188 million in the first half of 2008 principally due to an increase in our depreciable asset base mainly transmission facilities, 2G, 3G and broadband networks, and broadband customer-deployed equipment.

Rent expenses increased by Php513 million, or 13%, to Php4,604 million on account of an increase in DFON facilities and transmission circuits leased by Smart from PLDT, as well as higher site and office rental expenses. In the first half of 2008, we had 5,199 GSM cell sites and 7,495 base stations, compared with 4,731 GSM cell sites and 7,342 base stations in the same period in 2007.

Compensation and employee benefits expenses decreased by Php75 million, or 3%, to Php2,381 million primarily due to lower LTIP costs as a result of a price decrease in PLDT shares partly offset by higher accrued bonuses and employees basic pay increase of Smart. Smart and subsidiaries employee headcount increased by 361 to 5,539 in the first half of 2008 as compared with 5,178 in the same period in 2007. For further discussion on our LTIP, please see *Note 23 Share-based Payments and Employee Benefits* to the accompanying unaudited consolidated financial statements.

Selling and promotion expenses increased by Php411 million, or 23%, to Php2,206 million due to higher advertising, promotion and commission expenses, partly offset by decreases in public relations expense and printing cost of prepaid cards with the prevalence of e-loading.

Repairs and maintenance expenses increased by Php378 million, or 21%, to Php2,156 million mainly due to an increase in network and software repairs and maintenance costs, as well as an increase in fuel costs for power generation.

Cost of sales decreased by Php471 million, or 20%, to Php1,938 million due to a lower average cost of cellular phonekits and SIM-packs, and a lower quantity of phonekits sold, partly offset by a higher quantity of SIM-packs sold in the first half of 2008.

Professional and other contracted services increased by Php156 million, or 14%, to Php1,239 million primarily due to higher expenses for call center, outsourced, technical and consultancy services. Please see *Note 22 Related Party Transactions* to the accompanying unaudited consolidated financial statements for further discussion.

Foreign exchange losses net amounted to Php1,100 million in the first half of 2008 primarily due to loss on revaluation of net foreign currency-denominated liabilities owing to the depreciation of the Philippine peso in the first half of 2008.

Financing costs net decreased by Php126 million, or 10%, to Php1,098 million on account of lower interest on loans and related items, lower financing charges and higher capitalized interest.

Taxes and licenses increased by Php261 million, or 39%, to Php935 million primarily due to network expansion, the imposition of new licenses and fees on telecommunications entities, and non-creditable input tax.

Communication, training and travel expenses decreased by Php2 million to Php524 million primarily due to lower hauling, training and travel expenses incurred in the first half of 2008.

Insurance and security services decreased by Php28 million, or 7%, to Php352 million primarily due to lower charges on insurance contracts.

Asset impairment increased by Php25 million, or 13%, to Php223 million mainly due to higher provisions for doubtful accounts and inventory obsolescence in the first half of 2008.

Amortization of intangible assets decreased by Php19 million, or 22%, to Php66 million mainly due to intangible assets relating to customer list arising from the acquisition of SBI which was fully amortized by August 2007.

Gain on derivative transactions net of Php7 million in the first half of 2007 relates to the gain in the mark-to-market valuation of forward contracts and embedded derivatives on service and purchase contracts.

Other expenses decreased by Php31 million, or 6%, to Php518 million primarily due to lower various business and operational-related expenses.

Provision for Income Tax

Provision for income tax increased by Php207 million, or 3%, to Php7,619 million in the first half of 2008 from Php7,412 million in the same period in 2007. In the first half of 2008, the effective tax rate for our wireless business was 35% as compared with 33% in the same period in 2007 mainly due to higher non-deductible expenses and derecognition of deferred income tax assets by ACeS Philippines in the first half of 2008.

Net Income

Our wireless business segment recorded a net income of Php14,251 million in the first half of 2008, a decrease of Php899 million, or 6%, over Php15,150 million registered in the same period in 2007 on account of an 10% increase in wireless-related expenses and higher provision for income tax, partially offset by a 7% increase in wireless service revenues.

Fixed Line

Total Revenues and Other Income

Revenues and other income generated from our fixed line business in the first half of 2008 totaled Php30,129 million, an increase of Php5,750 million, or 24%, from Php24,379 million in the same period in 2007.

The following table summarizes the unaudited revenues and other income of our fixed line business for the six months ended June 30, 2008 and 2007 by service segment:

	Six Months Ended June 30,					
					Increase (Decrease)	
	2008	**%**	**2007**	**%**	**Amount**	**%**
			(in millions)			
Fixed line services:						
Service revenues						
Local exchange	Php8,031	27	Php7,941	32	Php90	1
International long distance	3,669	12	4,562	19	(893)	(20)
National long distance	3,244	11	3,255	13	(11)	
Data and other network	8,951	30	7,251	30	1,700	23
Miscellaneous	687	2	700	3	(13)	(2)
	24,582	82	23,709	97	873	4
Non-service revenues						
Sale of computers	179		89		90	101
Gain on derivative transactions net	4,188	14			4,188	100
Interest income	227	1	139	1	88	63
Foreign exchange gains net			54		(54)	(100)
Others	953	3	388	2	565	146
Total Fixed Line Revenues and Other Income	Php30,129	100	Php24,379	100	Php5,750	24

Service Revenues

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php873 million, or 4%, to Php24,582 million in the first half of 2008 from Php23,709 million in the same period in 2007 primarily due to an increase in our data and other network service as a result of higher revenues contributed by our DSL and Diginet services, as well as the slight increase in our local exchange service, partially offset by the decrease in our international long distance, national long distance and miscellaneous services.

Local Exchange Service

Our local exchange service revenues consist of: (i) flat monthly fees for our postpaid and fixed charges for our bundled voice and data services; (ii) amortization of installation charges and other one-time fees associated with the establishment of customer service; (iii) revenues from usage of prepaid cards for calls within the local area and any unused peso value of expired prepaid cards; and (iv) 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 the unaudited key measures of our local exchange service business as at and for the six months ended June 30, 2008 and 2007:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2008	**2007**	**Amount**	**%**
Total local exchange service revenues (in millions)	Php8,031	Php7,941	Php90	1
Number of fixed line subscribers	1,788,571	1,819,943	(31,372)	(2)
Postpaid	1,535,050	1,460,110	74,940	5
Prepaid	253,521	359,833	(106,312)	(30)
Number of fixed line employees	8,028	8,670	(642)	(7)
Number of fixed line subscribers per employee	223	210	13	6

Revenues from our local exchange service increased by Php90 million, or 1%, to Php8,031 million in the first half of 2008 from Php7,941 million in the same period in 2007 primarily due to an increase in the average number of postpaid billed lines as a result of the launching of PLDT Landline Plus and higher bundled voice and data services, interconnection and service connection charges, partially offset by a decrease in average revenue per user on account of lower fixed charges. The percentage contribution of local exchange revenues to our total fixed line service revenues remained at 33% in the first half of 2008 and 2007.

Initially intended as an affordable alternative telephone service for consumers under difficult economic conditions, our prepaid fixed line services now form an important part of our overall churn and credit risk exposure management strategy. PLDT has consolidated its prepaid fixed line service into *Telepwede* which is funded by e-Loads (available at Smart or PLDT e-Load retailers). *Telepwede* subscribers are charged Php115 to receive incoming calls and can reload for as low as Php30 to make outgoing calls. Local call rates are made more affordable at Php2 per call, unlimited.

In March 2007, PLDT launched the PLDT Landline Plus, a postpaid fixed wireless service where subscribers to the service benefit from a text-capable home phone. The monthly service fee is at Php600 with 600 local minutes free and Php1,000 with 1,000 local minutes free for residential and business subscribers, respectively. In March 2008, we introduced the prepaid counterpart of the PLDT Landline Plus. As at June 30, 2008, there were a total of 116,144 PLDT Landline Plus subscribers, of which 69,710 and 46,434 were postpaid and prepaid subscribers, respectively. As at July 31, 2008, there were approximately 195,000 registered subscribers under our PLDT Landline Plus services.

International Long Distance Service

Our international long distance service revenues, which we generate through our international gateway facilities, consist of (i) 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; (ii) access charges paid to us by other Philippine telecommunications carriers for terminating inbound international calls to our local exchange network; and (iii) 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 our unaudited fixed line international long distance revenues and call volumes for the six months ended June 30, 2008 and 2007:

	Six Months Ended June 30,			
			Decrease	
	2008	**2007**	**Amount**	**%**
Total international long distance service revenues (in millions)	Php3,669	Php4,562	(Php893)	(20)
Inbound	2,974	3,835	(861)	(22)
Outbound	695	727	(32)	(4)
International call volumes (in million minutes, except call ratio)	1,013	1,141	(128)	(11)
Inbound	889	1,008	(119)	(12)
Outbound	124	133	(9)	(7)
Inbound-outbound call ratio	7.2:1	7.6:1		

Our total international long distance service revenues decreased by Php893 million, or 20%, to Php3,669 million in the first half of 2008 from Php4,562 million in the same period in 2007 primarily due to the appreciation of the Philippine peso, a decrease in average termination rates for inbound calls and a decrease in inbound and outbound call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 15% in the first half of 2008 from 19% in the same period in 2007.

Our revenues from inbound international long distance service decreased by Php861 million, or 22%, to Php2,974 million owing to the appreciation of the Philippine peso to the U.S. dollar coupled with a decrease in average termination rate per minute due to the change in call mix with more traffic terminating to cellular operators where the net revenue retained by us is lower, as well as a decrease in inbound traffic volume by 119 million minutes to 889 million minutes in the first half of 2008. The appreciation of the Philippine peso to the U.S. dollar with average exchange rates of Php42.007 in the first half of 2008 and Php47.745 in the same period in 2007 contributed to the decrease in our inbound international long distance revenues in peso terms, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php32 million, or 4%, to Php695 million in the first half of 2008 primarily due to a decline in average revenue per minute as a result of a lower average collection rate with the introduction of low-rate services such as *PLDT ID-DSL* and *Budget Card*, and the appreciation of Philippine peso in 2007, which more than offset the increase in outbound international call volumes in the first half of 2008.

National Long Distance Service

Our national long distance service revenues consist of: (i) 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; (ii) access charges received from other telecommunications carriers for calls carried through our backbone network and/or terminating to our customers; and (iii) fixed charges paid by other telephone companies, charges retained by PLDT for calls terminating to cellular subscribers within the local area, and local access charges paid by cellular operators for calls by cellular subscribers that terminate to our local exchange network.

The following table shows our unaudited national long distance service revenues and call volumes for the six months ended June 30, 2008 and 2007:

	Six Months Ended June 30,			
			Decrease	
	2008	**2007**	**Amount**	**%**
Total national long distance service revenues (in millions)	Php3,244	Php3,255	(Php11)	
National long distance call volumes (in million minutes)	1,026	1,094	(68)	(6)

Our national long distance service revenues decreased by Php11 million to Php3,244 million in the first half of 2008 from Php3,255 million in the same period in 2007 primarily due to a decrease in call volumes resulting to an increase in average revenue per minute in the first half of 2008. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 13% and 14% in the first half of 2008 and 2007, respectively.

Data and Other Network Services

Our data and other network service revenues include charges for leased lines, IP-based, packet-based and switched-based services. These services are used for domestic and international communications such as private networking, broadband and narrowband internet-based data communications, and packet-based communication.

The following table shows information about our unaudited data and other network service revenues for the six months ended June 30, 2008 and 2007:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2008	**2007**	**Amount**	**%**
Data and other network service revenues (in millions)	Php8,951	Php7,251	Php1,700	23
Number of *DSL* broadband subscribers	335,016	200,029	134,987	67
Number of *PLDT Vibe* narrowband subscribers	165,804	302,571	(136,767)	(45)

In the first half of 2008, our data and other network services posted revenues of Php8,951 million, an increase of Php1,700 million, or 23%, from Php7,251 million in the same period in 2007 primarily due to increases in leased lines, IP-based and packet-based data services, particularly Diginet and DFON rental, and PLDT DSL mitigated by lower PLDT Vibe services. The percentage contribution of this service segment to our fixed line service revenues increased to 36% in the first half of 2008 from 31% in the same period in 2007.

IP-based products include *PLDT DSL* (*myDSL* and *BizDSL*), *PLDT Vibe* and I-Gate. *PLDT DSL* broadband internet service is targeted for heavy individual internet users as well as for small and medium enterprises, while *PLDT Vibe,* PLDT s dial-up/narrowband internet service, is targeted for light to medium residential or individual internet users. I-Gate, our dedicated leased line internet access service, on the other hand, is targeted at enterprises and value-added service providers.

DSL contributed revenues of Php2,526 million in the first half of 2008, an increase of Php775 million, or 44%, from Php1,751 million in the same period in 2007 primarily due to an increase in the number of subscribers, which was partially offset by lower ARPU as a result of launching of lower plans as part of promotions. DSL reached 335,016 subscribers in the first half of 2008 compared with 200,029 subscribers in the same period in 2007.

PLDT Vibe revenues decreased by Php59 million, or 40%, to Php87 million in the first half of 2008 from Php146 million in the same period in 2007 primarily due to lower number of plan subscribers as well as the declining usage of *Vibe* prepaid. *PLDT Vibe* subscribers decreased to 165,804 in the first half of 2008 from 302,571 in the same period in 2007. The declining number of *Vibe* plans and regular monthly users for *Vibe* prepaid may be attributed to the migration from *Vibe* dial-up to DSL which is now priced more competitively.

The continued growth in data services revenues can be attributed to several product offerings. The steady demand for dedicated connectivity or private networking from the corporate market using PLDT s traditional international and domestic data offerings Fibernet, Arcstar, other Global Service Providers such as BT-infonet, Orange Business and Verizon; ISDN has been increasingly popular with corporate customers, especially the Primary Rate Interface type, I-Gate, Diginet, BRAINS, IP-VPN and *Shops.work*, among others continue to provide us with a stable revenue source.

Diginet, our domestic private leased line service, has been providing Smart s increasing fiber optic and leased line data requirements. Diginet revenues increased by Php409 million, or 12%, to Php3,720 million in the first half of 2008 as compared with Php3,311 million in the same period in 2007 mainly due to Smart s DFON rental of Php2,879 million and Php2,469 million in the first half of 2008 and 2007, respectively.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising and facilities management and rental fees. In the first half of 2008, these revenues decreased by Php13 million, or 2%, to Php687 million from Php700 million in the same period in 2007 mainly due to a decline in facilities management fees and rental income owing to lower co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in the first half of 2008 and 2007.

Non-service Revenues

Non-service revenues increased by Php90 million, or 101%, to Php179 million in the first half of 2008 from Php89 million in the same period in 2007 primarily due to an increase in subscriptions for our DSL service that is bundled with computers and thus resulted in higher computer sales.

Gain on Derivative Transactions net

We recognized a gain on derivative transactions net of Php4,188 million in the first half of 2008, of which Php3,492 million pertain to the gain on mark-to-market valuation of various financial instruments, and Php696 million pertain to the impact of the de-designation of foreign currency swaps and option contracts beginning January 1, 2008. This change in accounting treatment exposes our profit and loss accounts to the volatility of the financial instruments fair valuation at certain periods. Please see *Note 26 Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements for further discussion.

Interest Income

Interest income of our fixed line business segment increased by Php88 million, or 63%, to Php227 million in the first half of 2008 from Php139 million in the same period in 2007 primarily due to higher average interest rate on money market placements.

Foreign Exchange Gains net

Our fixed line foreign exchange gains net amounted to Php54 million in the first half of 2007 primarily due to revaluation of net foreign currency-denominated liabilities as a result of the appreciation of the Philippine peso to the U.S. dollar in the first half of 2007.

Others

All other income/gains such as rental income and gain on disposal of property, which do not fall under service and non-service revenues, are included under this classification. In the first half of 2008, our fixed line business segment registered an increase in other income of Php565 million, or 146%, to Php953 million from Php388 million in the same period in 2007 largely due to gain on disposal of fixed assets.

Expenses

Expenses related to our fixed line business totaled Php21,888 million in the first half of 2008, an increase of Php1,091 million, or 5%, as compared with Php20,797 million in the same period in 2007. The increase was primarily due to higher foreign exchange losses, professional and other contracted services, and repairs and maintenance, partially offset by loss on derivative transactions in 2007, lower compensation and employee benefits, financing costs and depreciation and amortization.

The following table shows the breakdown of our unaudited fixed line-related expenses for the six months ended June 30, 2008 and 2007 and the percentage of each expense item to the total:

	Six Months Ended June 30,					
					Increase (Decrease)	
	2008	%	2007	%	Amount	%
			(in millions)			
Fixed line services:						
Depreciation and amortization	Php6,111	28	Php6,508	31	(Php397)	(6)
Compensation and employee benefits(1)	4,088	19	4,817	23	(729)	(15)
Foreign exchange losses net	2,594	12			2,594	100
Financing costs net	2,035	9	2,731	13	(696)	(25)
Repairs and maintenance	1,932	9	1,714	8	218	13
Professional and other contracted services	1,077	5	849	4	228	27
Rent	963	4	794	4	169	21
Selling and promotions	763	4	578	3	185	32
Taxes and licenses	619	3	575	3	44	8
Asset impairment	490	2	510	3	(20)	(4)
Communication, training and travel	309	1	228	1	81	36
Insurance and security services	289	1	223	1	66	30
Cost of sales	106	1	82		24	29
Loss on derivative transactions net			921	5	(921)	(100)
Provisions	14		19		(5)	(26)
Other expenses	498	2	248	1	250	101
Total	Php21,888	100	Php20,797	100	Php1,091	5

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(1) Includes salaries and employee benefits, LTIP, pension and MRP costs.

Depreciation and amortization charges decreased by Php397 million, or 6%, to Php6,111 million in the first half of 2008 due to lower depreciable asset base from additional completed projects.

Compensation and employee benefits expenses decreased by Php729 million, or 15%, to Php4,088 million primarily due to lower LTIP costs as a result of a decrease in PLDT s share price and a decrease in pension benefits based on lower salary increase assumption. For further discussion on our LTIP, please see *Note 23 Share-based Payments and Employee Benefits* to the accompanying unaudited consolidated financial statements.

Foreign exchange losses net amounted to Php2,594 million in the first half of 2008 primarily due to loss on revaluation of net foreign currency-denominated liabilities as a result of the depreciation of the Philippine peso in the

first half of 2008.

Financing costs net decreased by Php696 million, or 25%, to Php2,035 million largely due to lower interest on loans and related items resulting from lower debt levels complemented by higher capitalized interest.

Repairs and maintenance expenses increased by Php218 million, or 13%, to Php1,932 million primarily due to higher maintenance costs of IT software and hardware and foreign cable and wire facilities as more operating and maintenance-related restorations were incurred in the first half of 2008 as compared with the same period in 2007.

Professional and other contracted services increased by Php228 million, or 27%, to Php1,077 million primarily due to higher contracted fees for technical and advisory services.

Rent expenses increased by Php169 million, or 21%, to Php963 million due to the increase in pole rental charges and international leased circuit charges, partially offset by a decrease in transponder lease.

Selling and promotion expenses increased by Php185 million, or 32%, to Php763 million primarily due to higher marketing expenses as a result of more major advertising campaigns launched on the PLDT Landline Plus in the first half of 2008 as well as an increase in commission expenses.

Taxes and licenses increased by Php44 million, or 8%, to Php619 million mainly due to higher payment of NTC supervision and license fees.

Asset impairment decreased by Php20 million, or 4%, to Php490 million mainly due to lower impairment charge on uncollectible receivables.

Communication, training and travel expenses increased by Php81 million, or 36%, to Php309 million due to the increase in mailing, courier and delivery charges, partially offset by a net decrease in foreign and local travel, and training expenses.

Insurance and security services increased by Php66 million, or 30%, to Php289 million primarily due to higher security expense and premiums on property all-risk, industrial all-risk and industrial fire insurance.

Cost of sales increased by Php24 million, or 29%, to Php106 million due to higher computer-bundled sales in relation to our DSL promotion and *WeRoam* subscriptions.

Provisions decreased by Php5 million, or 26%, to Php14 million in the first half of 2008 primarily due to provision for assessments in 2008. Please see *Note 25 Provisions and Contingencies* to the accompanying unaudited consolidated financial statements for further details.

Loss on derivative transactions net amounted to Php921 million in the first half of 2007 primarily due to higher hedging costs and the effect of the appreciation of the Philippine peso against the U.S. dollar.

Other expenses increased by Php250 million, or 101%, to Php498 million due to higher various business and operational-related expenses.

Provision for Income Tax

Provision for income tax amounted to Php2,824 million in the first half of 2008 as compared with Php1,383 million in the same period in 2007 primarily due to higher taxable income. Effective tax rate is lower at 34% in the first half of 2008 compared with 39% in the same period in 2007 due to a higher non-taxable income in the first half of 2008.

Net Income

In the first half of 2008, our fixed line business segment contributed a net income of Php5,417 million, an increase of Php3,218 million, or 146%, as compared with Php2,199 million in the same period in 2007 mainly as a result of a gain on derivative transactions of Php4,188 million.

Information and Communications Technology

Total Revenues and Other Income

Our ICT business provides knowledge processing solutions, customer interaction services, internet and online gaming, and data center services.

In the first half of 2008, our ICT business generated revenues and other income of Php5,171 million, an increase of Php233 million, or 5%, from Php4,938 million in the same period in 2007. This increase was due to the continued growth of our customer interaction services.

The following table summarizes the unaudited total revenues and other income from our ICT business for the six months ended June 30, 2008 and 2007 by service segment:

	Six Months Ended June 30,					
					Increase (Decrease)	
	2008	%	2007	%	Amount	%
			(in millions)			
Service Revenues						
Knowledge processing solutions	Php2,549	49	Php2,561	52	(Php12)	
Customer interaction services	1,647	32	1,531	31	116	8
Internet and online gaming	473	9	457	9	16	4
*Vitro*ä data center	295	6	257	5	38	15
	4,964	96	4,806	97	158	3
Non-service revenues						
Point-Product-Sales	201	4	162	4	39	24
Interest income	9		8		1	13
Foreign exchange losses net			(51)	(1)	51	100
Loss on derivative transactions net	(31)				(31)	(100)
Others	28		13		15	115
Total ICT Revenues and Other Income	Php5,171	100	Php4,938	100	Php233	5

Service Revenues

Service revenues generated by our ICT business segment amounted to Php4,964 million in the first half of 2008, an increase of Php158 million, or 3%, as compared with Php4,806 million in the same period in 2007 primarily as a result of the continued growth of our customer interaction services business complemented by the acquisition of Springfield Service Corporation, or Springfield, in April 2007, partially offset by lower revenues from litigation and healthcare services of knowledge processing solutions in the first half of 2008.

Knowledge Processing Solutions

Knowledge processing solution revenues consist of: (i) editorial and content production services to the scholarly scientific, technical and medical (SSTM) journal publishing industry; (ii) digital content conversion services to information organizations; (iii) pre-press project management services to book publishers; (iv) litigation support services which involve conventional coding and electronic discovery support services for corporations, international law firms, corporate counsels and government agencies; (v) conversion services of medical record/data from handwritten or speech format to electronic format and patient scheduling, coding and compliance assistance, consulting and specialized reporting services; and (vi) revenue cycle management services for U.S. medical facilities.

We provide our knowledge processing solutions primarily through the SPi Group. Knowledge processing solutions contributed revenues of Php2,549 million in the first half of 2008, a decrease of Php12 million from Php2,561 million in the same period in 2007 primarily as a result of lower service revenues from litigation and healthcare services partially offset by the revenues contributed by Springfield. Knowledge processing solutions accounted for 51% and 53% of total service revenues of our ICT business in the first half of 2008 and 2007, respectively.

Customer Interaction Services

Customer interaction service revenues consist of: (i) handling of inbound calls for customer care, product inquiries, sales and technical support based on active minutes, billable hours and full-time equivalents; (ii) outbound calls for sales and collections based on active minutes, billable hours and full-time equivalents; and (iii) service income for e-mail handling, web chat, web co-browsing, data entry and knowledge processing solutions based on transaction volume.

We provide our customer interaction services primarily through *ePLDT Ventus*. Revenues relating to our customer interaction services business increased by Php116 million, or 8%, to Php1,647 million in the first half of 2008 from Php1,531 million in the same period in 2007 primarily due to the expansion of our facilities. In total, we own and operate approximately 6,520 seats with 5,770 customer service representatives, or CSRs, in the first half of 2008 compared with approximately 6,030 seats with 4,730 CSRs in the same period in 2007. In the first half of 2008 and 2007, we have nine and seven customer interaction service sites, respectively.

Customer interaction service revenues accounted for 33% and 32% of total service revenues of our ICT business in the first half of 2008 and 2007, respectively.

Internet and Online Gaming

Internet and online gaming service revenues consist of: (i) revenues derived from actual usage of the internet access network by prepaid subscribers; (ii) monthly service fees from postpaid corporate and consumer subscribers; (iii) one-time fees generated from the reselling of internet-related solutions such as security solutions and domain

registration; (iv) franchise and royalty fees for *Netopia* internet cafés; (v) online gaming revenues from unique subscribers, including one-time sale of gaming cards and electronic pins, and top-up fees upon actual consumption of gaming credits or after expiration of any unused peso value thereof.

Revenues from our internet and online gaming businesses increased by Php16 million, or 4%, to Php473 million in the first half of 2008 from Php457 million in the same period in 2007 primarily due to the increase in Infocom s revenues from customer service outsourcing. Our internet and online gaming business revenues accounted for 10% of total service revenues of our ICT business in the first half of 2008 and 2007.

*Vitro*ä *Data Center*

ePLDT operates an internet data center under the brand name *Vitro*ä which provides co-location services, server hosting, hardware and software maintenance services, website development and maintenance services, webcasting and webhosting, shared applications, data disaster recovery and business continuity services, intrusion detection, and security services such as firewalls and managed firewalls.

*Vitro*ä revenues consist of: (i) monthly service fees derived from co-location services, server hosting, hardware and software maintenance services, website development and maintenance services, web hosting, data recovery security services and other value-added services; (ii) installation charges or one-time fees associated with the set-up of services and professional services of *Vitro*ä s certified professionals; and (iii) fees generated from the issuance of digital certificates and revenues derived from IT helpdesk/contact center solutions and terminals for credit, debit and credit card transactions.

In the first half of 2008, *Vitro*ä contributed revenues of Php295 million, an increase of Php38 million, or 15%, from Php257 million in the same period in 2007 primarily due to an increase in co-location revenues and server hosting. *Vitro*ä revenues accounted for 6% and 5% of service revenues of our ICT business in the first half of 2008 and 2007, respectively.

Non-service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In the first half of 2008, non-service revenues generated by our ICT business increased by Php39 million, or 24%, to Php201 million as compared with Php162 million in the same period in 2007 primarily due to higher revenues from sales of software and hardware licenses.

Interest Income

Interest income for our ICT business segment increased by Php1 million, or 13%, to Php9 million in the first half of 2008 from Php8 million in the same period in 2007 primarily due to a higher level of interest rates.

Loss on Derivative Transactions net

Loss on derivative transactions net of Php31 million in the first half of 2008 was primarily due to loss in the mark-to-market valuation recognized by our customer interaction service and knowledge processing solutions businesses on forward exchange contracts.

Others

Other income generated from our ICT business increased by Php15 million, or 115%, to Php28 million in the first half of 2008 as compared with Php13 million in the same period in 2007 primarily due to the recognition of income on ePLDT s investment in convertible securities of Stradcom International Holdings, Inc., or SIHI and gain on disposal of fixed assets. Please see *Note 13 Investment in Debt Securities* to the accompanying unaudited consolidated financial statements for further discussion of our investment in Stradcom.

Expenses

Expenses associated with our ICT business totaled Php5,169 million in the first half of 2008, an increase of Php196 million, or 4%, from Php4,973 million in the same period in 2007 primarily due to increase in compensation and employee benefits, cost of sales, gain on derivative transactions, financing costs, repairs and maintenance, and communication, training and travel, partially offset by lower professional and other contracted services, foreign exchange gains net, depreciation and amortization, and selling and promotions. As a percentage of our ICT total revenues, expenses related to our ICT business were 100% and 101% in the first half of 2008 and 2007, respectively.

The following table shows the breakdown of our unaudited ICT-related expenses for the six months ended June 30, 2008 and 2007 and the percentage of each expense item to the total:

Six Months Ended June 30,

	2008	**%**	**2007**	**%**	**Increase (Decrease) Amount**	**%**
			(in millions)			
ICT services:						
Compensation and employee benefits(1)	Php2,872	56	Php2,583	52	Php289	11
Depreciation and amortization	423	8	475	9	(52)	(11)
Professional and other contracted services	363	7	607	12	(244)	(40)
Rent	345	7	329	7	16	5
Repairs and maintenance	281	5	245	5	36	15
Communication, training and travel	264	5	229	5	35	15
Cost of sales	264	5	143	3	121	85
Amortization of intangible assets	114	2	96	2	18	19
Selling and promotions	98	2	130	3	(32)	(25)
Financing costs net	89	2	34	1	55	162
Taxes and licenses	48	1	39	1	9	23
Insurance and security services	28	1	24		4	17
Asset impairment	6		24		(18)	(75)
Gain on derivative transactions net			(85)	(2)	85	100
Foreign exchange gains net	(141)	(3)			(141)	(100)
Other expenses	115	2	100	2	15	15
Total	Php5,169	100	Php4,973	100	Php196	4

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

Compensation and employee benefits increased by Php289 million, or 11%, to Php2,872 million largely due to the consolidation of Springfield in April 2007 and the expansion of our customer interaction services business.

Depreciation and amortization charges decreased by Php52 million, or 11%, to Php423 million primarily due to a decrease in the depreciable asset base of our customer interaction services business offset by an increase in asset base brought about by the consolidation of Springfield in April 2007.

Professional and other contracted services decreased by Php244 million, or 40%, to Php363 million primarily due to lower consultancy fees and subcontracted services incurred by the SPi Group related to its knowledge processing solutions.

Rent expenses increased by Php16 million, or 5%, to Php345 million primarily due to higher office space rentals and leased circuits from other carriers incurred by our customer interaction services business.

Repairs and maintenance expenses increased by Php36 million, or 15%, to Php281 million primarily due to higher maintenance costs for new customer interaction service facilities and the consolidation of Springfield.

Communication, training and travel expenses increased by Php35 million, or 15%, to Php264 million primarily due to the increased cost of phone lines, bandwidth and information system charges, coupled with the increase in local and foreign travel costs, and mailing and courier charges incurred by our customer interaction service and knowledge processing solution businesses.

Cost of sales increased by Php121 million, or 85%, to Php264 million primarily due to higher sales of software licenses and hardware products.

Amortization of intangible assets increased by Php18 million, or 19%, to Php114 million in relation to the acquisition of Springfield by SPi in April 2007. Please see *Note 11 Goodwill and Intangible Assets* to the accompanying unaudited consolidated financial statements for further discussion.

Selling and promotion expenses decreased by Php32 million, or 25%, to Php98 million mainly due to the SPi Group s lower advertising and marketing spending.

Financing costs net increased by Php55 million, or 162%, to Php89 million in the first half of 2008 primarily due to a higher accretion on financial liabilities particularly the contingent consideration in relation to the Springfield acquisition in 2007 and a higher interest on loans and related items.

Taxes and licenses increased by Php9 million, or 23%, to Php48 million primarily due to the consolidation of Springfield in April 2007 and higher business-related taxes.

Insurance and security services increased by Php4 million, or 17%, to Php28 million primarily due to higher premium costs and an increase in the value of assets insured.

Foreign exchange gains net of Php141 million in the first half of 2008 was primarily due to the gain on revaluation of net foreign currency-denominated assets and liabilities due to the depreciation of the Philippine peso in the first half of 2008.

Other expenses increased by Php15 million, or 15%, to Php115 million mainly due to higher business-related costs, such as office supplies.

Benefit from Income Tax

Benefit from income tax decreased by Php32 million, or 84%, to Php6 million in the first half of 2008 primarily due to the corresponding deferred tax effect of the amortization of intangible assets.

Net Income

In the first half of 2008, our ICT business segment registered a net income of Php8 million, an increase of Php5 million, or 167%, from Php3 million in the same period in 2007 mainly as a result of the 5% increase in ICT-related revenues in the first half of 2008, partly offset by the 4% increase in ICT-related expenses.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the six months ended June 30, 2008 and 2007 as well as our consolidated capitalization and other selected financial data as at June 30, 2008 and December 31, 2007:

	Six Months Ended June 30,	
	2008	**2007**
	(in millions)	
Cash Flows		
Net cash provided by operating activities	Php40,385	Php38,524
Net cash used in investing activities	8,603	19,865
Capital expenditures	*8,684*	*9,966*
Net cash used in financing activities	31,272	22,499
Net increase (decrease) in cash and cash equivalents	827	(4,081)

	June 30, 2008	**December 31, 2007**
	(in millions)	
Capitalization		
Long-term portion of interest-bearing financial liabilities net of current portion:		

Long-term debt	Php51,486	Php53,372
Obligations under capital lease	9	15
	51,495	53,387
Current portion of interest-bearing financial liabilities:		
Notes payable	567	493
Long-term debt maturing within one year	14,462	6,775
Obligations under capital lease maturing within one year	183	481
Preferred stock subject to mandatory redemption	16	1,015
	15,228	8,764
Total interest-bearing financial liabilities	66,723	62,151
Total equity	105,928	112,511
	Php172,651	Php174,662
Other Financial Data		
Total assets	Php237,158	Php240,158
Property, plant and equipment - net	155,778	159,414
Cash and cash equivalents	18,274	17,447
Short-term investments	13,328	13,415

As at June 30, 2008, our consolidated cash and cash equivalents and short-term investments totaled Php31,602 million. Principal sources of consolidated cash and cash equivalents in the first half of 2008 were cash flows from operating activities amounting to Php40,385 million and drawings from PLDT s, Smart s and ePLDT s debt facilities aggregating Php6,443 million. These funds were used principally for capital outlays of Php8,684 million, total debt principal payments of Php5,550 million, share buyback of Php3,553 million, interest payments of Php2,678 million and dividend payments of Php23,429 million.

Operating Activities

Our consolidated net cash flows from operating activities increased by Php1,861 million, or 5%, to Php40,385 million in the first half of 2008 from Php38,524 million in the same period in 2007. A growing portion of our consolidated cash flow is generated by our wireless service business, which accounted for 61% and 60% of our total service revenues in the first half of 2008 and 2007. Service revenues from our fixed line and information and communications technology accounted for 33% and 6%, respectively, of our total service revenues and other income in the first half of 2008, and 33% and 7%, respectively, in the same period in 2007.

Cash flows from operating activities of our wireless business amounted to Php22,745 million in the first half of 2008, a decrease of Php2,007 million, or 8%, compared with Php24,752 million in the same period in 2007. The decrease in our wireless business segment s cash flows from operating activities was a result of lower collection of accounts receivables and higher settlement of various payables in the first half of 2008. Conversely, cash flows from operating activities of our fixed line business increased by Php5,142 million, or 44%, to Php16,759 million in the first half of 2008 compared with Php11,617 million in the same period in 2007. This increase was primarily due to higher collection of accounts receivable, lower settlement of various liabilities and increase in advance payments received

from various leased lines in the first half of 2008. The overall increase in our cash flows from operating activities was primarily due to higher billings and lower level of settlement of various current liabilities, partially offset by higher income taxes paid in the first half of 2008. We believe that our continuing strong cash flows from operating activities on a consolidated basis will allow us to satisfy our current liabilities as our current ratio is less than 1:1 as at June 30, 2008.

Following the repayment by Smart by April 2006 of all its loan facilities that contained restrictive covenants, Smart is no longer required to seek consent from its lenders to pay dividends, redeem preferred shares, make distributions to PLDT or otherwise provide funds to PLDT or any associate. In the first half of 2008 and 2007, dividend payments received by PLDT from Smart amounted to Php10,000 million and Php18,000 million, respectively.

Investing Activities

Net cash used in investing activities amounted to Php8,603 million in the first half of 2008, a decrease of Php11,262 million, or 57%, from Php19,865 million in the same period in 2007 primarily due to a decrease in short-term investments of Php9,609 million, lower investment acquisition by Php1,289 million, redemption of SIHI s preferred shares of Php1,187 million and a decrease in capital expenditures of Php1,282 million in the first half of 2008, partially offset by investment in debt securities of Php2,199 million.

Our consolidated capital expenditures in the first half of 2008 totaled Php8,684 million, a decrease of Php1,282 million, or 13%, from Php9,966 million in the same period in 2007 primarily due to PLDT s lower capital spending. Smart's capital spending of Php5,396 million in the first half of 2008 was used primarily to further upgrade its core, access and transmission network facilities and expand its wireless broadband facilities. PLDT's capital spending of Php3,553 million was principally used to finance the expansion and upgrade of its submarine cable facilities, fixed line data and IP-based network services. ePLDT and its subsidiaries capital spending of Php358 million was primarily used to fund its continued customer interaction services expansion. The balance represented other subsidiaries capital spending.

As part of our growth strategy, we may from time to time, continue to make acquisitions and investments in companies or businesses.

Financing Activities

On a consolidated basis, we used net cash of Php31,272 million in the first half of 2008 for financing activities, net of loan drawings by Smart and PLDT, an increase of Php8,773 million, or 39%, compared with Php22,499 million in the same period in 2007. The net cash used in financing activities was mainly utilized for dividend payments distributed to PLDT common and preferred stockholders, buyback of PLDT s common stock, debt repayments and interest

payments.

Debt Financing

Additions to our consolidated long-term debt in the first half of 2008 and 2007 totaled Php6,207 million and Php5,429 million, respectively, mainly from Smart's and PLDT s drawings related to the financing of our network expansion projects and capital expenditure requirements, respectively. Payments in respect of principal and interest of our total debt amounted to Php5,550 million and Php2,678 million, respectively, in the first half of 2008 and Php14,130 million and Php3,375 million, respectively, in the first half of 2007.

Our long-term debt increased by Php5,801 million, or 10%, to Php65,948 million in the first half of 2008, largely due to drawings from our term loan facilities and the depreciation of the Philippine peso in the first half of 2008 as compared with the peso appreciation in the same period in 2007 resulting to higher peso equivalents of our foreign currency-denominated debts, partially offset by debt amortizations and prepayments. The debt levels of PLDT and Smart increased by 11% and 9% to Php37,828 million and Php27,182 million, respectively, while the debt level of Mabuhay decreased by 21% in the first half of 2008 as compared with the levels as at December 31, 2007.

In 2007, we conducted a consent solicitation of holders of our 11.375% Notes due 2012, 10.5% Notes due 2009 and 8.35% Notes due 2017, or the Notes, in respect of amendments to the terms of the Notes that allow PLDT greater flexibility to make certain restricted payments, pay dividends or make distributions, while reducing PLDT s permitted leverage ratios pursuant to the terms of the Notes. These amendments to the terms of the Notes became effective on December 3, 2007, the date on which PLDT made the applicable consent payments, after holders of more than 51% of the aggregate principal amount of the Notes gave their consents for these amendments to the terms of the Notes prior to the expiration of the consent solicitation period and after the execution of relevant amendments to the indentures governing the Notes on November 21, 2007.

On January 15, 2008, PLDT signed a US$100 million term loan facility agreement with Norddeutsche Landesbank Girozentrale Singapore Branch to be used for the capital expenditure requirements of PLDT. The facility was drawn on March 27 and April 10, 2008 for US$50 million each, respectively. The loan is payable over five years in 10 equal semi-annual installments starting September 29, 2008 with final repayment due on March 27, 2013.

On July 15, 2008, PLDT signed a loan agreement amounting to US$50 million (or its equivalent in pesos) with Bank of the Philippine Islands to refinance its loan obligations the proceeds of which were utilized for purposes of its service improvements and expansion programs. The initial drawdown under this loan was made on July 21, 2008 in the total amount of US$15 million and the balance will be drawn in pesos within the six-month period commencing from the date of the loan agreement. The loan is payable in equal quarterly installments starting July 21, 2009 with final repayment due on July 21, 2013.

Approximately Php27,274 million principal amount of our consolidated outstanding long-term debt as at June 30, 2008 is scheduled to mature over the period from 2008 to 2011. Of this amount, Php13,739 million is attributable to PLDT, Php12,597 million to Smart and the remainder to Mabuhay Satellite and ePLDT.

For a complete discussion of our long-term debt, see *Note 18 Interest-bearing Financial Liabilities Long-term Debt* to the accompanying unaudited consolidated financial statements.

Debt Covenants

Our debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, calculated in conformity with PFRS, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments. Furthermore, certain of PLDT s debt instruments contain provisions wherein PLDT may be required to repurchase or prepay certain indebtedness in case of a change in control of PLDT.

Please see *Note 18 Interest-bearing Financial Liabilities Debt Covenants* to the accompanying unaudited consolidated financial statements for a detailed discussion of our debt covenants.

Financing Requirements

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

As a result of our strong cash flows and lower debt levels, we have increased our dividend payout ratio to 70% of 2007 earnings per share from 60% of 2006 earnings per share.

With respect to our 2007 earnings, in addition to the Php60 per share dividend declared on August 7, 2007, we declared on March 4, 2008 a regular cash dividend of Php68 per share and a special cash dividend of Php56 per share, in the aggregate representing close to a 100% payout of our 2007 earnings per share. The total dividends declared last March 4, 2008 and paid on April 21, 2008 amounted to Php23,438 million.

On August 5, 2008, we declared a regular cash dividend of Php70 per share of common stock to holders of record as at August 22, 2008 payable on September 22, 2008.

Credit Ratings

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

PLDT s current credit ratings are as follows:

Rating Agency	Credit Rating		Outlook
Standard & Poor s Ratings Services, or Standard & Poor s	Foreign Currency Rating	BB+	Stable
Moody s Investor Service, or Moody s	Foreign Currency Senior Unsecured Debt Rating	Ba2	Positive
	Local Currency Corporate Family Rating	Baa2	Positive
Fitch Ratings, or Fitch	Long-term Foreign Currency Rating	BB+	Stable
	Long-term Local Currency Rating	BB+	Stable
	Long-term Foreign Currency Issuer Default Rating	BB+	Stable
	Long-term Local Currency Issuer Default Rating	BBB	Stable
	National Long-term Rating	AAA(ph1)	Stable

On March 19, 2008, Moody s affirmed our local currency rating and changed its outlook from stable to positive at the same time affirming our foreign currency bond Ba2 rating with a positive outlook. The rating action reflects our ability to achieve ongoing revenue growth and fund high levels of capital expenditures internally, as well as the ability to increase dividend payments to our shareholders. On January 28, 2008, Moody s affirmed our foreign currency senior unsecured debt rating from stable to positive following the change in the outlook of the Philippines Ba3 country ceiling for foreign currency bonds to positive from stable.

On November 6, 2007, Standard and Poor s, Moody s and Fitch affirmed some of our local and foreign currency ratings following the consent solicitation announcement relating to the Notes to effect certain proposed amendments that would give us more flexibility to make investments and dividend payments. The affirmation also reflects our healthy financial and dominant market positions though counterbalanced by the uncertainty of the Philippines political and economic environment. However, any future upward ratings would be more reflective of a stabilizing economic,

political and social environment reducing such uncertainties.

Off-Balance Sheet Arrangement

There are no off-balance sheet arrangements that have or are reasonably likely to have any current or future effect on our financial position, results of operations, cash flows, changes in stockholders equity, liquidity, capital expenditures or capital resources that are material to investors.

Equity Financing

PLDT raised Php1 million and Php52 million from the exercise by certain officers and executives of stock options in the first half of 2008 and 2007, respectively. In addition, through our subscriber investment plan which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% cumulative convertible preferred stock as part of the upfront payments collected from subscribers, PLDT was able to raise Php6 million in the first half of 2008.

As part of our goal to maximize returns to our shareholders, we obtained on January 29, 2008 an approval from our board of directors to conduct a share buyback program for up to two million PLDT common shares. As at June 30, 2008, we had acquired a total of 1,383,410 shares of common stock at a weighted average price of Php2,568 for a total amount of Php3,553 million. On August 5, 2008, our board of directors approved a second share buyback program of up to another 2 million shares representing approximately 1.1% of PLDT s total outstanding common shares. Please refer to *Note 17 Equity* to the accompanying unaudited consolidated financial statements for further details.

Cash dividend payments in the first half of 2008 amounted to Php23,429 million compared with Php9,460 million paid to common and preferred shareholders in the same period in 2007. In the first half of 2008, there were 188.1 million PLDT common shares outstanding compared with 188.6 million in the same period in 2007.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our contractual obligations, see *Note 24 Contractual Obligations and Commercial Commitments* to the accompanying unaudited consolidated financial statements.

Commercial Commitments

As at June 30, 2008, our outstanding commercial commitments, in the form of letters of credit, amounted to Php1,731 million. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

For further discussions of these risks, see *Note 24 Contractual Obligations and Commercial Commitments* and *Note 26 Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements.

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. In recent periods, we do not believe inflation has had a material impact on our operations. The average inflation rate in the Philippines in the first half of 2008 was 7.6% compared with 2.6% in the same period in 2007.

PART II OTHER INFORMATION

Related Party Transactions

For a detailed discussion of the related party transactions, see *Note 22 Related Party Transactions* to the accompanying unaudited consolidated financial statements.

ANNEX AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of unaudited consolidated receivables as at June 30, 2008:

Type of Accounts Receivable	Total	Current	31-60 Days	61-90 Days	Over 91 Days
			(In Millions)		
Corporate subscribers	Php9,703	Php1,913	Php1,306	Php635	Php5,849
Retails subscribers	8,045	2,145	1,100	336	4,464
Foreign administrations	4,379	1,540	1,234	509	1,096
Domestic carriers	1,103	127	101	91	784
Dealers, agents and others	2,640	2,238	74	35	293
Total	Php25,870	Php7,963	Php3,815	Php1,606	Php12,486
Less: Allowance for doubtful accounts	12,521				
Total Receivables - net	**Php13,349**				

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the first half of 2008 to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title:

/s/ Napoleon L. Nazareno
Napoleon L. Nazareno
President and Chief Executive Officer

Signature and Title:

/s/ Anabelle Lim-Chua
Anabelle Lim-Chua
Senior Vice President and Treasurer
(Principal Financial Officer)

Signature and Title:

/s/ June Cheryl A. Cabal-Furigay
June Cheryl A. Cabal-Furigay
First Vice President and Controller
(Principal Accounting Officer)

Date: August 5, 2008

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS AT JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007 (AUDITED)

AND FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (UNAUDITED)

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in million pesos, except par value, per share amounts and number of shares)

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
Noncurrent Assets		
Property, plant and equipment - net (Notes 2, 3, 5, 8, 18 and 26)	**155,778**	159,414
Investments in associates and joint ventures (Notes 2, 9, 18 and 26)	**1,315**	1,351
Investments-available-for-sale (Notes 2 and 26)	**143**	143
Investment in debt securities (Notes 2 and 26)	**637**	273
Investment properties (Notes 2, 3, 10 and 26)	**558**	577
Goodwill and intangible assets - net (Notes 2, 3, 5, 11 and 26)	**12,573**	11,721
Deferred income tax assets (Notes 2, 3, 4, 6 and 26)	**10,398**	13,757
Derivative financial assets (Notes 2 and 26)	**78**	59
Prepayments - net of current portion (Notes 16 and 26)	**2,600**	2,281
Advances and refundable deposits - net of current portion (Notes 2 and 26)	**1,079**	1,030
Total Noncurrent Assets	**185,159**	190,606
Current Assets		
Cash and cash equivalents (Notes 2, 12 and 26)	**18,274**	17,447
Short-term investments (Notes 2 and 26)	**13,328**	13,415
Investment in debt securities (Notes 2, 13 and 26)	**1,832**	1,115
Trade and other receivables - net (Notes 2, 3, 14, 22 and 26)	**13,349**	12,645
Inventories and supplies (Notes 2, 15 and 26)	**1,709**	1,167
Derivative financial assets (Notes 2 and 26)	**59**	897
Current portion of prepayments (Notes 16 and 26)	**3,173**	2,368
Current portion of advances and refundable deposits (Notes 2 and 26)	**275**	498
Total Current Assets	**51,999**	49,552
TOTAL ASSETS	**237,158**	240,158
EQUITY AND LIABILITIES		
Equity Attributable to Equity Holders of PLDT		
Preferred stock, Php10 par value, authorized - 822,500,000 shares; issued and outstanding - 441,685,257 shares as at June 30, 2008 and 441,650,297 shares as at December 31, 2007 (Notes 2, 7 and 17)	**4,417**	4,417
Common stock, Php5 par value, authorized - 234,000,000 shares; issued - 189,450,338 shares and outstanding - 188,066,928 shares as at June 30, 2008 and issued and outstanding - 188,740,519 shares as at December 31, 2007 (Notes 2, 7 and 17)	**947**	943
Treasury stock - 1,383,410 shares as at June 30, 2008 (Note 17)	**(3,553)**	
Stock options issued (Note 23)	**6**	9

Equity portion of convertible preferred stock (Note 18)	**1**	6
Capital in excess of par value	**68,327**	67,057
Retained earnings (Note 7)	**35,364**	39,576
Cumulative translation adjustments (Note 26)	**(1,378)**	(895)
Total Equity Attributable to Equity Holders of PLDT	**104,131**	111,113
Minority interests	**1,797**	1,398
Total Equity	**105,928**	112,511

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (*continued*)

(in million pesos, except par value, per share amounts and number of shares)

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Noncurrent Liabilities		
Interest-bearing financial liabilities - net of current portion (Notes 2, 8, 18, 24 and 26)	**51,495**	53,387
Deferred income tax liabilities (Notes 2, 3, 4, 6 and 26)	**1,646**	2,155
Derivative financial liabilities (Notes 2, 24 and 26)	**2,878**	7,741
Pension and other employee benefits (Notes 2, 3, 23 and 26)	**4,203**	4,540
Customers deposits (Notes 24 and 26)	**2,232**	2,201
Deferred credits and other noncurrent liabilities (Notes 2, 3, 8, 11, 14, 19 and 26)	**8,190**	9,632
Total Noncurrent Liabilities	**70,644**	79,656
Current Liabilities		
Accounts payable (Notes 2, 20, 22, 25 and 26)	**13,622**	12,253
Accrued expenses and other current liabilities (Notes 2, 3, 11, 18, 21, 22, 23, 24, 25 and 26)	**25,061**	21,674
Derivative financial liabilities (Notes 2, 24 and 26)	**730**	242
Provisions for assessments (Notes 2, 22, 24, 25 and 26)	**671**	1,112
Current portion of interest-bearing financial liabilities (Notes 2, 8, 18, 24 and 26)	**15,228**	8,764
Dividends payable (Notes 2, 7, 18, 24 and 26)	**1,125**	1,071
Income tax payable (Notes 2, 6 and 26)	**4,149**	2,875
Total Current Liabilities	**60,586**	47,991
TOTAL EQUITY AND LIABILITIES	**237,158**	240,158

See accompanying Notes to Unaudited Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in million pesos, except earnings per common share amounts)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2008	2007	2008	2007
	(Unaudited)			
REVENUES AND OTHER INCOME				
Service revenues (Notes 2, 3 and 4)	**70,347**	67,141	35,414	34,069
Gains on derivative transactions net (Notes 2, 4 and 26)	**4,001**		2,225	
Non-service revenues (Notes 2, 3, 4 and 5)	**1,255**	1,316	773	703
Interest income (Notes 2 and 4)	**888**	646	438	313
Equity share in net gains of associates	**3**		2	
Foreign exchange gains net (Notes 2 and 4)		995		406
Others (Notes 2, 3 and 4)	**1,121**	453	864	242
	77,615	70,551	39,716	35,733
EXPENSES				
Depreciation and amortization (Notes 3, 4 and 8)	**12,722**	12,876	6,360	7,427
Compensation and employee benefits (Notes 3, 5 and 23)	**9,372**	9,854	4,834	5,073
Repairs and maintenance (Note 22)	**4,057**	3,442	2,008	1,596
Foreign exchange losses net	**3,555**		3,267	
Financing costs net (Notes 2, 5, 8, 18 and 26)	**3,222**	3,989	1,833	1,935
Selling and promotions	**3,066**	2,499	1,498	1,202
Professional and other contracted services (Notes 5 and 22)	**2,347**	2,325	1,259	1,046
Cost of sales (Notes 5, 22 and 24)	**2,308**	2,634	1,389	1,413
Rent (Note 24)	**1,656**	1,410	777	720
Taxes and licenses (Note 25)	**1,600**	1,288	759	680
Communication, training and travel	**980**	886	496	462
Asset impairment (Notes 3, 5, 8, 9 and 11)	**719**	732	418	507
Insurance and security services (Note 22)	**634**	586	293	257
Amortization of intangible assets (Notes 3 and 11)	**180**	181	85	105
Equity share in net losses of associates	**46**	9	22	3
Provisions (Notes 3, 4, 14, 15, 22, 24 and 25)	**14**	19	14	10
Loss on derivative transactions net		829		164
Other expenses (Note 22)	**1,068**	883	502	394
	47,546	44,442	25,814	22,994
INCOME BEFORE INCOME TAX	**30,069**	26,109	13,902	12,739

PROVISION FOR INCOME TAX				
(Notes 2, 3, 4 and 6)	**10,437**	8,757	4,877	4,157
NET INCOME FOR THE PERIOD	**19,632**	17,352	9,025	8,582
ATTRIBUTABLE TO:				
Equity holders of PLDT (Note 7)	**19,270**	17,079	8,824	8,465
Minority interests	**362**	273	201	117
	19,632	17,352	9,025	8,582
Earnings Per Common Share (Note 7)				
Basic	**100.90**	89.35	45.55	43.68
Diluted	**100.89**	89.05	45.55	43.57

See accompanying Notes to Unaudited Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Stock Options Issued	Equity Portion of Convertible Preferred Stock	Capital in Excess of Par Value	Retained Earnings	Cumulative Translation Adjustments	Equity Attributable to Equity Holders of PLDT	Minority Interests	Total Equit
alances at anuary 1, 2007											
s previously eported	4,424	942		40	9	66,574	32,784	(1,796)	102,977	1,546	104,52
ffect of change revenue ecognition policy or installation ees (Note 2)							(456)		(456)		(45
s restated Note	4,424	942		40	9	66,574	32,328	(1,796)	102,521	1,546	104,06
hanges in quity:											
et income for e period											
s previously eported							17,002		17,002	273	17,27
ffect of change revenue ecognition policy or installation ees (Note 2)							77		77		7
s restated Note							17,079		17,079	273	17,35
eferred income x effects on ash ow hedges								(318)	(318)		(31
oreign currency anslation fferences								(620)	(620)	(30)	(65
et gains on vailable-for-sale								18	18		1

nancial investments										
et losses on cash flow hedges removed from cumulative translation adjustments taken to income							1,698	1,698		1,69
et losses on cash flow hedges							(639)	(639)		(639
otal income and xpense for the eriod recognized irectly in equity							139	139	(30)	10
otal income nd expense for ne period						**17,079**	**139**	**17,218**	**243**	**17,46**
ash dividends Note 7)						**(9,473)**		**(9,473)**		**(9,473**
ssuance of apital stock - et of conversion Note 17)	**(4)**	**1**		**(1)**	**246**			**242**		**24**
xercised option hares			**(21)**		**73**			**52**		**5**
Minority interest									**(14)**	**(14**
alances at June 0, 2007 Unaudited)	**4,420**	**943**	**19**	**8**	**66,893**	**39,934**	**(1,657)**	**110,560**	**1,775**	**112,33**
alances at anuary 1, 2008	**4,417**	**943**	**9**	**6**	**67,057**	**39,576**	**(895)**	**111,113**	**1,398**	**112,51**
hanges in quity:										
et income for ne period						19,270		19,270	362	19,63
eferred income x effects on ash ow hedges							564	564		56
oreign currency anslation ifferences							691	691	37	72
et gains on cash ow hedges emoved from umulative anslation djustments taken o income							(698)	(698)		(698

et losses on ash flow hedges								(1,040)	(1,040)		(1,04
otal income and xpense for the eriod recognized rectly in equity								(483)	(483)	37	(44
otal income nd expense for ne period							**19,270**	**(483)**	**18,787**	**399**	**19,18**
ash dividends Note 7)							**(23,482)**		**(23,482)**		**(23,48**
ssuance of apital stock - et of conversion Note 17)		**4**			**(5)**	**1,261**			**1,260**		**1,26**
xercised option nares				**(3)**		**9**			**6**		
reasury stock			**(3,553)**						**(3,553)**		**(3,55**
alances at June 0, 2008 Unaudited)	**4,417**	**947**	**(3,553)**	**6**	**1**	**68,327**	**35,364**	**(1,378)**	**104,131**	**1,797**	**105,92**

See accompanying Notes to Unaudited Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in million pesos)

	Six Months Ended June 30,	
	2008	2007
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**30,069**	26,109
Adjustments for:		
Depreciation and amortization (Notes 3, 4 and 8)	**12,722**	12,876
Foreign exchange losses (gains) net (Notes 5, 18 and 26)	**3,555**	(995)
Interest on loans and related items net (Note 5)	**2,703**	3,381
Asset impairment (Notes 3, 5, 14, 15 and 26)	**719**	732
Accretion on financial liabilities net (Notes 5 and 26)	**485**	562
Pension (Notes 3, 5 and 23)	**365**	778
Amortization of intangible assets (Note 11)	**180**	181
Equity share in net losses of associates (Note 4)	**43**	9
Dividends on preferred stock subject to mandatory redemption (Note 5)	**4**	9
Incentive plans (Notes 3, 5 and 23)	**(493)**	583
Gain on disposal of fixed assets (Note 8)	**(580)**	(158)
Interest income (Note 4)	**(888)**	(646)
Loss (gains) on derivative transactions net (Notes 4 and 26)	**(4,001)**	829
Others	**(391)**	51
Operating income before changes in assets and liabilities	**44,492**	44,301
Decrease (increase) in:		
Trade and other receivables	**(211)**	(265)
Inventories and supplies	**(401)**	(262)
Prepayments	**(799)**	1,260
Advances and refundable deposits	**202**	(49)
Increase (decrease) in:		
Accounts payable	**533**	2,350
Accrued expenses and other current liabilities	**3,238**	1,367
Unearned revenues	**(317)**	(18)
Pension and other employee benefits	**(235)**	(5,560)
Customers deposits	**24**	(7)
Other noncurrent liabilities	**4**	(145)
Net cash generated from operations	**46,530**	42,972
Income taxes paid	**(6,145)**	(4,448)
Net cash provided by operating activities	**40,385**	38,524
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from redemption of investment in debt securities	**1,187**	

Interest received	**682**	551
Proceeds from disposal of property, plant and equipment (Note 8)	**833**	424
Proceeds from disposal of investment properties	**9**	2
Payments for acquisition of intangibles	**(37)**	
Interest paid capitalized to property, plant and equipment (Notes 5 and 8)	**(342)**	(255)
Increase in advances and refundable deposits	**(424)**	(10)
Payments for purchase of investment in debt securities	**(2,199)**	
Payments for purchase of investments net of cash acquired	**(397)**	(1,686)
Additions to property, plant and equipment (Note 8)	**(8,342)**	(9,711)
Additions to short-term investments	**(17,049)**	(9,189)
Proceeds from maturity of short-term investments	**17,476**	9
Net cash used in investing activities	**(8,603)**	(19,865)

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (*continued*)

(in million pesos)

	Six Months Ended June 30,	
	2008	2007
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt (Note 18)	**6,207**	5,429
Additional capital expenditures under long-term financing	**2,390**	4,970
Proceeds from notes payable	**236**	162
Proceeds from issuance of capital stock	**7**	52
Payments of debt issuance costs	**(2)**	(13)
Payments of notes payable	**(208)**	(104)
Payments of obligations under finance lease	**(310)**	(105)
Settlements of derivative financial instruments	**(827)**	(1,589)
Interest paid - net of capitalized portion	**(2,678)**	(3,375)
Payments for redemption of shares	**(3,553)**	(14)
Reduction in capital expenditures under long-term financing	**(3,763)**	(4,426)
Payments of long-term debt (Note 18)	**(5,342)**	(14,026)
Cash dividends paid	**(23,429)**	(9,460)
Net cash used in financing activities	**(31,272)**	(22,499)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**317**	(241)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**827**	(4,081)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**17,447**	16,870
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**18,274**	12,789

See accompanying Notes to Unaudited Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

The Philippine Long Distance Telephone Company, or PLDT, or Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT s corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT s incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, First Pacific Company Limited, or First Pacific, through its Philippine and other affiliates, collectively the First Pacific Group, acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., or NTTC-UK, became PLDT s strategic partner with approximately 14% economic and voting interest in the issued and outstanding common stock of PLDT. Simultaneous with NTT Communications investment in PLDT, the latter acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DoCoMo, Inc., or NTT DoCoMo, acquired from NTT Communications approximately 7% of PLDT s then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT s common shares. Since March 14, 2006, NTT DoCoMo has made additional purchases of shares of PLDT and together with NTT Communications beneficially owned 20.94% of the outstanding shares of PLDT s common stock as at June 30, 2008. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an additional interest of approximately 46% in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This additional investment in PTIC represents an attributable interest of approximately 6.4% of the then issued common shares of PLDT and thereby raised First Pacific Group s beneficial ownership to approximately 28% of PLDT s shares of common stock as at that date. First Pacific Group had beneficial ownership of approximately 26.28% in PLDT s outstanding common stock as at June 30, 2008.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued ADRs evidencing American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary for PLDT s ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol PHI . As at June 30, 2008, there were a total of over 44 million ADSs outstanding.

Until early 2007, the ADSs were also listed on the NYSE Arca. However, PLDT voluntarily delisted its ADSs from the NYSE Arca, effective February 12, 2007, after determining that doing so is in the best interest of PLDT and its stockholders.

PLDT operates under the jurisdiction of the Philippine National Telecommunications Commission, or NTC, which jurisdiction extends, among other things, to approving major services offered by PLDT and certain rates charged by PLDT.

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

2. Summary of Significant Accounting Policies and Practices

Basis of Preparation

Our unaudited consolidated financial statements have been prepared under the historical cost basis except for the revaluation of derivative financial instruments, available-for-sale financial investments and investment properties that have been measured at fair values.

Our unaudited consolidated financial statements include, in our opinion, adjustments consisting only of normal recurring adjustments, necessary to present fairly the results of operations for the interim periods. The results of operations for the six months ended June 30, 2008 are not necessarily indicative of the results of operations that may be expected for the full year.

Our unaudited consolidated financial statements are presented in Philippine peso, PLDT s functional and presentation currency and all values are rounded to the nearest million except when otherwise indicated.

Basis of Unaudited Consolidated Financial Statements Preparation

Our unaudited consolidated financial statements include the financial statements of PLDT (the Parent Company) and those of the following subsidiaries (collectively, the PLDT Group).

Name of Subsidiary	Place of Incorporation	Principal Activity	Percentage of Ownership Direct	Indirect
Wireless				
Smart	Philippines	Cellular mobile services	100.0	
Smart Broadband, Inc., or SBI	Philippines	Internet broadband distribution		100.0
SmartConnect Holdings Pte. Ltd., or SCH	Singapore	Investment company		100.0
I-Contacts Corporation, or I-Contacts	Philippines	Customer interaction services		100.0
Wolfpac Mobile, Inc., or Wolfpac	Philippines	Mobile applications development and services		100.0
SmartConnect Global Pte. Ltd., or SGP	Singapore	International trade of satellites and GSM enabled global telecommunications		100.0
Wireless Card, Inc., or WCI	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards		100.0
Smarthub, Incorporated, or SHI	Philippines	Development and sale of software, maintenance and support services		100.0
Ph Communications Holdings Corporation, or PHC	Philippines	Investment company		100.0
Francom Holdings, Inc., or FHI	Philippines	Investment company		100.0
Connectiviy Unlimited Resource Enterprise, or CURE	Philippines	Cellular mobile services		100.0
Pilipino Telephone Corporation, or Piltel	Philippines	Cellular mobile services		92.1
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services		85.0
Telesat, Inc., or Telesat	Philippines	Satellite communications services	100.0	
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5
Mabuhay Satellite Corporation, or Mabuhay Satellite	Philippines	Satellite communications services	67.0	
Fixed Line				
	Philippines	Telecommunications services	100.0	

PLDT Clark Telecom, Inc., or ClarkTel				
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	100.0	
PLDT Global Corporation, or PLDT Global	British Virgin Islands	Telecommunications services	100.0	
Smart-NTT Multimedia, Inc., or SNMI	Philippines	Data and network services	100.0	
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	97.5	
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related value-added services	75.0	
Information and Communications Technology, or ICT				
ePLDT, Inc., or ePLDT	Philippines	Information and communications infrastructure for Internet-based services, e-commerce, customer interaction services and IT-related services	100.0	
SPi Technologies, Inc., or SPi, and subsidiaries, or SPi Group	Philippines	Knowledge processing solutions		100.0
ePLDT Ventus, Inc., or Ventus	Philippines	Customer interaction services		100.0
Vocativ Systems, Inc., or Vocativ	Philippines	Customer interaction services		100.0
Parlance Systems, Inc., or Parlance	Philippines	Customer interaction services		100.0
Infocom Technologies, Inc., or Infocom	Philippines	Internet access services		99.6
Digital Paradise Thailand	Thailand	Internet access services		87.5
netGames, Inc., or netGames	Philippines	Publisher of online games		80.0
Digital Paradise, Inc., or Digital Paradise	Philippines	Internet access services		75.0
Level Up! (Philippines), Inc., or Level Up!	Philippines	Publisher of online games		60.0

Subsidiaries are fully consolidated from the date when control is transferred to the PLDT Group and cease to be consolidated from the date when control is transferred out of the PLDT Group.

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our unaudited consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets not held by us and are presented separately in the unaudited consolidated statements of income and within equity in the unaudited consolidated balance sheets, separately from equity attributable to equity holders of PLDT. Acquisition of minority interests is accounted for using the parent entity extension method, whereby, the difference between the consideration and the net book value of the share of the net assets acquired is recognized in goodwill.

Minority interests represent the equity interests in Piltel, Level Up!, Mabuhay Satellite, 3rd Brand, Maratel, BCC, Digital Paradise, Digital Paradise Thailand, netGames and Infocom not held by the PLDT Group.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortized goodwill is recognized in the unaudited consolidated statement of income.

Acquisition of CURE

On April 28, 2008, Smart acquired the entire issued and outstanding capital stock of PHC and FHI which collectively own 100% of CURE for the total amount of Php420 million. PHC and FHI own 96.57% and 3.43%, respectively, of CURE. Smart will initially record the assets and liabilities of PHC, FHI and CURE at net book values and recognize an intangible asset (for the 3G spectrum of CURE) for the difference between the Smart s acquisition cost and the net book value of the assets and liabilities acquired. Smart intends to engage an independent appraiser to establish the fair values of the acquired assets and liabilities.

The acquisition follows Smart s previously announced plan to provide expanded and enhanced 3G services nationwide, including higher speed wireless broadband services. CURE is envisioned to provide Smart with a platform to offer and provide differentiated 3G services for niche markets.

Statement of Compliance

Our unaudited consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards, or PFRS.

Changes in Accounting Policies

Our accounting policies adopted are consistent with those of the previous financial period except for policy on revenue recognition on installation fees as discussed below and the adoption of the new and amended Philippine Accounting Standards, or PAS, PFRS and Philippine Interpretations that became effective in 2008.

Voluntary Change in Revenue Recognition Policy for Installation Fees

In 2007, we changed our revenue recognition policy for installation fees and have elected to defer and amortize our installation fees and its corresponding costs over the expected average periods of the customer relationship of our subscribers. Prior to 2007, we recognized installation fees and its corresponding cost outright. Our change in revenue recognition policy was made to better reflect the expected utility of installation fees over the terms of customer relationship.

We accounted for the change in accounting policy retroactively and accordingly restated our comparative unaudited consolidated financial statements to conform to the said change. The after tax effect of the change was an increase in our unaudited consolidated net income of Php77 million for the six months ended June 30, 2007, and decrease in the retained earnings beginning of Php456 million as at June 30, 2007. Basic earnings per common share increased by Php0.40 for the six months ended June 30, 2007.

Our consolidated unearned revenues related to the unamortized installation fees amounted to Php445 million and Php479 million as at June 30, 2008 and December 31, 2007, respectively, and are included in our Accrued expenses and other current liabilities and Deferred credits and other noncurrent liabilities in the unaudited consolidated balance sheets.

Adoption of New Standards and Interpretations

Our adoption of the following new and amended standards and interpretations did not have any effect on our unaudited consolidated financial statements. Our adoption, however, gave rise to additional disclosures on the following:

- ***Philippine Interpretation IFRIC 11, PFRS 2, Group and Treasury Share Transactions*.** This standard is effective for annual periods beginning on or after March 31, 2007. This interpretation addresses issues relating to whether transactions should be accounted for as equity-settled or as cash-settled under PFRS 2 and issues concerning share-based payment arrangement involving entities within the same group. The interpretation had no impact in our unaudited consolidated financial statements.

• ***Philippine Interpretation IFRIC 12, Service Concession Arrangements*** **.** This interpretation has become effective for financial years beginning on or after January 1, 2008. This interpretation applies to contractual arrangements whereby a private sector party participates in the development, financing, operation and maintenance of infrastructure for public sector services. This interpretation is not relevant to our current operations.

• ***Philippine Interpretation IFRIC 14, PAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** **.** This interpretation has become effective for financial years beginning on or after January 1, 2008. Philippine Interpretation IFRIC 14 addresses how to assess the limit under *PAS 19, Employee Benefits* , on the amount of the pension scheme surplus that can be recognized as an asset in our unaudited consolidated balance sheet, in particular, when a minimum funding requirement exists. The specific issues addressed by the interpretation are: (1) a refund is available to the entity only if there is an unconditional right to the refund and such refund is measured as the amount of the surplus at the balance sheet date less any associated costs; (2) when there is an unconditional right to a refund and there is no minimum funding requirement, an entity determines the benefit available as the lower of the surplus in the plan and the present value of the future service cost to the entity; (3) when a minimum funding requirement exists, the benefit available is the present value of the estimated future service cost less the estimated minimum funding contribution required in respect of the future accrual of benefits in that year; and (4) if an entity has a minimum funding requirement to pay additional contributions, the entity must determine whether the contributions will be available as a refund or reduction in future contributions after they are paid into the plan. If not, a liability is recognized when the obligation arises. The interpretation had no impact in our unaudited consolidated financial statements.

Significant Accounting Policies and Practices

Investments in Associates

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. An associate is an entity in which we have significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associate is carried in the unaudited consolidated balance sheet at cost plus post acquisition changes in our share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. Our unaudited consolidated statement of income reflects the share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associate, we recognize our share in such change and disclose this, when applicable, in our consolidated statement of changes in equity. Profits or losses resulting from our transactions with and among our associates are eliminated to the extent of our interest in those associates.

Our reporting dates and that of our associates are identical and our associate s accounting policies conform to those used by us for like transactions and events in similar circumstances.

Investments in Joint Ventures

Investments in a joint venture that is a jointly controlled entity is accounted for using the equity method of accounting. The financial statements of the joint venture are prepared for the same reporting period as the unaudited consolidated financial statements of PLDT. Adjustments are made where necessary to bring the accounting policies in line with those of PLDT Group.

Adjustments are made in our unaudited consolidated financial statements to eliminate our share of unrealized gains and losses on transactions between PLDT and our jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss. The joint venture is carried at equity method until the date on which we cease to have joint control over the joint venture.

Foreign Currency Transactions and Translations

The functional and presentation currency of the entities under PLDT Group (except for SCH, SGP, 3rd Brand, Mabuhay Satellite, PLDT Global, Digital Paradise Thailand and SPi and certain of its subsidiaries) is the Philippine peso. Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional closing rate of exchange prevailing at the balance sheet date. All differences are recognized in the unaudited consolidated statement of income except for foreign exchange losses that qualify as capitalizable borrowing costs during the construction period for exchange gains or losses are treated as taxable income or deductible expenses in the period such exchange gains or losses are realized. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The functional and presentation currency of Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries is the U.S. dollar; Thai baht for Digital Paradise Thailand and Singapore dollar for SCH, SGP and 3rd Brand. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the PLDT Group at the rate of exchange prevailing at the balance sheet date, and income and expenses of these subsidiaries are translated at the weighted average exchange rate for the period. The exchange differences arising on translation were recognized as a separate component of equity as cumulative translation adjustments. On disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in equity relating to subsidiaries are recognized in the unaudited consolidated statement of income.

Property, Plant and Equipment

Property, plant and equipment, except for land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment losses. Land is stated at cost less any impairment in value. Cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period the asset is derecognized.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets.

The residual values, estimated useful lives and depreciation and amortization method are reviewed at least at each financial year-end to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Property under construction is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Property under construction is not depreciated until such time that the relevant assets are completed and substantially available for their intended use.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

Asset Retirement Obligations

We are legally required under various lease agreements to dismantle the installation in leased sites and restore such sites to their original condition at the end of the lease contract term. We recognize the liability measured at the present value of the estimated costs of these obligations and capitalize such costs as part of the balance of the related item of property, plant and equipment.

The amount of asset retirement obligations are accreted and such accretion is recognized as interest expense.

Investment Properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which have been determined based on the latest valuations performed by an independent firm of appraisers. Gains or losses arising from changes in the fair values of investment properties are included in the unaudited consolidated statement of income in the period in which they arise.

Investment properties are derecognized when they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the unaudited consolidated statement of income in the period of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, we account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

No assets held under operating lease have been classified as investment properties.

Business Combinations and Goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of any acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost, such cost being the excess of the cost of the business combination over our interest in the net fair value of the acquiree s identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our cash-generating units, or groups of our cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether our other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated: (1) represents our lowest level at which the goodwill is monitored for internal management purposes; and (2) is not larger than a segment based on either our primary or secondary reporting format determined in accordance with *PAS 14, Segment Reporting* .

Where a business combination agreement provides for an adjustment to the consideration of the combination contingent on future events or achieving specified earnings level in future periods, we recognize the estimated amount of that adjustment as part of cost of the combination and a liability at the acquisition date if the adjustment is probable and can be measured reliably. Otherwise, such adjustment is not recognized until it becomes probable and can be measured reliably in the subsequent period. Where future events do not occur or the estimate needs to be revised, the cost of the business combination initially recognized shall be adjusted accordingly. Future changes in estimates are treated as an adjustment to the cost of the combination with an adjustment to the recorded liability and goodwill.

Where goodwill forms part of a cash-generating unit, or group of cash-generating units, and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired from business combinations is initially recognized at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite useful life.

Intangible assets with finite lives are amortized over the useful economic life using the straight-line method of accounting and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are

reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the unaudited consolidated statement of income.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the unaudited consolidated statement of income when the asset is derecognized.

Intangible assets created within the business are not capitalized and expenditures are charged against operations in the period in which the expenditures are incurred.

Research and development costs are expensed as incurred.

Impairment of Non-Financial Assets

We assess at each reporting period whether there is an indication that our property, plant and equipment, and intangible assets with finite lives may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset s recoverable amount. An asset s recoverable amount is the higher of an asset s or cash-generating unit s fair value less costs to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognized in the unaudited consolidated statement of income.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, we make an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset s recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increase cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized in the unaudited consolidated statement of income. After such reversal, the depreciation and amortization charges are adjusted in future periods to allocate the asset s revised carrying amount, less any residual value, on a systematic basis over its remaining economic useful life.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit, or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit, or group of cash-generating units, is less than the carrying amount of the cash-generating unit, or group of cash-generating units, to which goodwill has been allocated to, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level, as appropriate. We calculate the amount of impairment as being the difference between the recoverable amount of the intangible asset and its carrying amount and recognize the amount of impairment in the unaudited consolidated statement of income.

Investments in associates

After application of the equity method, we determine whether it is necessary to recognize an additional impairment loss on our investments in associates. We determine at each balance sheet date whether there is any objective evidence that our investments in associates are impaired. If this is the case, we calculate the amount of impairment as being the difference between the recoverable amount of the investments in associates and its carrying amount and recognize the amount of impairment in the unaudited consolidated statement of income.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

Short-term Investments

Short-term investments are money market placements, which are highly liquid with maturities of more than three months but less than one year from date of acquisition.

Trade and Other Receivables

Trade and other receivables, categorized as loans and receivables, are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the unaudited consolidated statement of income. When a trade receivable is uncollectible, it is written-off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written-off are recognized as income in the unaudited consolidated statement of income.

Inventories and Supplies

Inventories and supplies, which include cellular phone units, materials, spare parts, terminal units and accessories, are valued at the lower of cost and net realizable value.

Cost is determined using the weighted average method. Net realizable value is either the estimated selling price in the ordinary course of the business less the estimated cost to sell or asset replacement costs.

Convertible Preferred Stock

Philippine peso-denominated

The component of our convertible preferred stock that exhibits characteristics of a liability is recognized as a liability in the unaudited consolidated balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in the unaudited consolidated statement of income. On issuance of our convertible preferred stock, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortized cost basis until extinguished through conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognized and included in the equity section of the unaudited consolidated balance sheet, net of transaction costs. The carrying amount of the conversion option is not re-measured in subsequent periods.

Transaction costs are apportioned between the liability and equity components of the convertible preferred stock based on the allocation of proceeds to the liability and equity components when the instruments are first recognized.

Foreign currency-denominated

We treat the Series VI Convertible Preferred Stock as debt instruments with foreign currency-denominated embedded call options. The fair value of embedded call options as of issuance date was bifurcated and thereafter accounted for separately at fair value through profit or loss. The residual amount was assigned as a liability component and accreted to the redemption amount up to the call option date using the effective interest rate method.

Provisions

We recognize provisions when we have present obligations, legal or constructive, as a result of past events, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where we expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the unaudited consolidated statement of income, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax

rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Retirement Benefits

Defined benefit pension plans

We have funded retirement plans, administered by our respective Fund s Trustees, covering permanent employees. Retirement costs are actuarially determined using the projected unit credit of accrued benefit valuation method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Defined contribution plans

Smart and I-Contacts record expenses for defined contribution plans for their contribution when the employee renders service to Smart and I-Contacts, respectively, essentially coinciding with their cash contributions to the plans.

Share-Based Payment Transactions

Certain of our employees (including advisors) receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the stock options at the date at which they are granted. Fair value is determined using an option-pricing model, further details of which are set forth in *Note 23 Share-based Payments and Employee Benefits*. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of PLDT (market conditions).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that will ultimately vest, in our opinion, at that date, based on the best available estimate.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled awards are modified and the modification increases the fair value of the equity instruments granted, as measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognized for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognized immediately, or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

Where an equity-settled award is cancelled with payment, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were modifications of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share. See *Note 7 Earnings Per Common Share*.

Cash-settled transactions

Our Long-Term Incentive Plan, or LTIP, grants share appreciation rights, or SARs, to our eligible key executives and advisors. Under the LTIP, we recognize the services we receive from our eligible key executives and advisors, and our liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. We measure our liability, initially and at each reporting date until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. We recognize any changes in fair value at each reporting date until settled, in the unaudited consolidated statement of income for the period.

Leases

The determination of whether an arrangement contains a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

A finance lease gives rise to a depreciation expense for the asset, as well as an interest expense for each period. Finance charges are charged directly to current operations. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that we will obtain ownership of the leased asset at the end of the lease term.

Revenue Recognition

Revenues for services are stated at amounts invoiced to customers, net of value-added tax, or VAT, or overseas communication tax, or OCT, where applicable. We provide wireless communication, fixed line communication, and ICT services. We provide such services to mobile, business, residential and payphone customers. Revenues represent the value of fixed consideration that have been received or are receivable. Revenues are recognized when there is evidence of an arrangement, collectibility is reasonably assured, and the delivery of the product or rendering of service

has occurred. In certain circumstances, revenue is split into separately identifiable components and recognized when the related components are delivered in order to reflect the substance of the transactions. The value of components is determined using verifiable objective evidence. Under certain arrangements where the above criteria are met, but there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service, and such amount is determined to be recoverable. We do not provide our customers with the right to a refund.

Service Revenues

Subscriptions

We provide telephone and data communication services under prepaid and postpaid payment arrangements. Installation and activation-related fees and the corresponding costs, not exceeding the activation revenue, are deferred and recognized over the expected average periods of customer relationship for fixed line and cellular services. Postpaid service arrangements include subscription fees, typically fixed monthly fees, which are recognized over the subscription period on a pro-rata basis.

Air time, traffic and value-added services

Prepaid service revenues collected in advance are deferred and recognized based on the earlier of actual usage or upon expiration of the usage period. Interconnection revenues for call termination, call transit, and network usage are recognized in the period the traffic occurs. Revenues related to local, long distance, network-to-network, roaming and international call connection services are recognized when the call is placed or connection is provided, net of amounts payable to other telecommunication carriers for terminating calls in their territories. Revenues related to products and value-added services are recognized upon delivery of the product or service.

Knowledge processing solutions

Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to us and the amount of revenue can be measured reliably. Advance customer receipts that have not been recognized as revenue are recorded as advances from customers and presented as a liability in the unaudited consolidated balance sheet. If the fee is not fixed or determinable, revenue is not recognized on those arrangements until the customer payment is received. For arrangements requiring specific customer acceptance, revenue recognition is deferred until the earlier of the end of the deemed acceptance period or until a written notice of acceptance is received from the customer. Revenue on services rendered to customers whose ability to pay is in doubt at the time of performance of services is also not recorded. Rather, revenue is recognized from these customers as payment is received.

Incentives

We record insignificant commission expenses based on the number of new subscriber connections initiated by certain dealers. All other cash incentives provided to dealers and customers are recorded as a reduction of revenue. Product-based incentives provided to dealers and customers as part of a transaction are accounted for as multiple element arrangements and recognized when earned.

Non-service Revenues

Handset and equipment sales

Sales of cellular handsets and communication equipment are recognized upon delivery to the customer.

Interest income

Interest income is recognized as it accrues on a time proportion basis taking into account the principal amount outstanding and the effective interest rate. The majority of interest income represents interest earned from cash and cash equivalents, short-term investments and investments in debt securities.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the balance sheet date.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except: (1) when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and (2) with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is possible that the temporary differences will not reverse in the foreseeable future. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax, or MCIT, and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefit of unused tax credits and unused tax losses can be utilized except: (1) when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and associates. With respect to investments in other subsidiaries and associates, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is included in the related equity account and not in the unaudited consolidated statement of income.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset deferred income tax assets against deferred income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Investments and Other Financial Assets and Liabilities

Financial assets are categorized as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial investments, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. We determine the category of its financial assets on initial recognition and, where allowed and appropriate, re-evaluate this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that we commit to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Day 1 profit or loss

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, we recognize the difference between the transaction price and fair value (a Day 1 profit or loss) in the unaudited consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which are not observable, the difference between the transaction price and model value is only recognized in the unaudited consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, we determine the appropriate method of recognizing the Day 1 profit or loss amount.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm s-length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on investments held-for-trading are recognized in profit or loss.

Financial assets may be designated at initial recognition as at fair value through profit or loss if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognizing gains or losses on them on a different basis; (ii) the assets and liabilities are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial assets and liabilities contain an embedded derivative that would need to be separately recorded. An embedded derivative is separated from the hybrid or combined contract if all the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid instrument is not recognized at fair value through profit or loss.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. We determine whether a modification of cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flow on the contract.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Assets in this category are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when we have the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process. Assets in this category are included under current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

Available-for-sale financial investments

Available-for-sale financial investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, available-for-sale financial investments are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss. They are included under non-current assets unless we intend to dispose of the investment within 12 months of the balance sheet date.

Impairment of Financial Assets

We assess at each balance sheet date whether a financial asset or group of financial assets is impaired.

Financial assets carried at amortized cost

For loans and receivables carried at amortized cost, we assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset s carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset s original effective interest rate. If a loan receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The

calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the unaudited consolidated statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written-off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amount formerly charged is credited to the income account.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, past-due or collectibility status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period at which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by management to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

In case of equity investments classified as available-for-sale financial invesments, an objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost.

Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the unaudited consolidated statement of income, is removed from equity and recognized in the unaudited consolidated statement of income. Impairment losses on equity investments are not reversed through the unaudited consolidated statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of Interest income account in the unaudited consolidated statement of income. If, in subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the unaudited consolidated statement of income, the impairment loss is reversed through the unaudited consolidated statement of income.

Treasury stock

Treasury stock are our own equity investments which we reacquired; and are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of our own equity instruments.

Financial liabilities

Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held-for-trading and those designated at fair value through profit or loss are recognized in profit or loss.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when: (1) the rights to receive cash flows from the asset have expired; (2) we retain the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a pass through arrangement; or (3) we have transferred our right to receive cash flows from the asset and either (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Where we have transferred our right to receive cash flows from an asset and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of our continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that we could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of our continuing involvement is the amount of the transferred asset that we may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of our continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the unaudited consolidated statement of income.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the unaudited consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the unaudited consolidated balance sheet.

Derivative Financial Instruments and Hedging

We use derivative financial instruments, such as long-term currency swaps, foreign currency options, forward currency contracts and interest rate swaps, to hedge our risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly to the losses or gains on derivative transactions account in the unaudited consolidated statement of income.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of long-term currency swaps, foreign currency options and interest rate swap contracts is determined using applicable valuation techniques. See *Note 26 Financial Assets and Liabilities*.

For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign-currency risk); (2) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized financial asset or liability or a highly probable forecast transaction or the foreign-currency risk in an unrecognized firm commitment; or (3) hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument s effectiveness in offsetting the exposure to changes in

the hedged item s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. For situation when that hedged item is a forecast transaction, we assess whether transaction is highly probable and prevent an exposure to variations in cash flows that could ultimately affect the unaudited consolidated statement of income.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognized in the unaudited consolidated statement of income. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in the unaudited consolidated statement of income.

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using an appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as financial asset or liability with a corresponding gain or loss recognized in the unaudited consolidated statement of income. The changes in the fair value of the hedging instrument are also recognized in the unaudited consolidated statement of income.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in the unaudited consolidated statement of income.

Amounts taken to equity are transferred to the unaudited consolidated statement of income when the hedged transaction affects the unaudited consolidated statement of income, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to the unaudited consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in the unaudited consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to the unaudited consolidated statement of income.

New Accounting Standards Subsequent to June 30, 2008

Set forth below are the new PFRS accounting standards and Philippine Interpretations that will become effective subsequent to June 30, 2008:

• ***PFRS 2, Share-based Payments Vesting Conditions and Cancellations*.** This amendment to PFRS 2 will become effective for financial years beginning on or after January 1, 2009, with earlier application permitted. This standard restricts the definition of vesting condition to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that an award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as cancellation. We have not entered into share-based payment schemes with non-vesting conditions attached and, therefore, do not expect significant implications on our accounting for share-based payments.

• ***PFRS 3 (Revised), Business Combinations*, and *PAS 27 (Revised), Consolidated and Separate Financial Instruments*.** The revised standards will supersede the existing IFRS 3 and PAS 27, respectively, effective July 1, 2009, with earlier application permitted. PFRS 3 (Revised) introduces a number of changes in the accounting for

business combinations that will impact the amount of goodwill recognized, the reported results in the period which an acquisition occurs, and future reported results. PAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to as gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by PFRS 3 (Revised) and PAS 27 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interest.

- ***PFRS 8, Operating Segments*** **.** This standard will become effective for financial years beginning on or after January 1, 2009 and will replace PAS 14. This standard requires an entity to report financial and descriptive information about our reportable segments. The requirements of this standard will be included in our unaudited consolidated financial statements for the fiscal year ending December 31, 2009.

- ***PAS 23, Borrowing Costs Revised.*** This standard will become effective for financial years beginning on or after January 1, 2009. The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of those assets.

- ***Amendments*** to PAS 32, *Financial Instruments: Presentation*, and PAS 1, *Presentation of Financial Statements* (Revised 2007) *Puttable Financial Instruments and Obligations Arising on Liquidation* . The amendments will apply for annual periods beginning on or after January 1, 2009, with earlier application permitted. The amendments to IAS 32 provides that puttable financial instruments will be presented as equity only if all of the following criteria are met: (a) the holder is entitled to a pro-rata share of the entity s net assets on liquidation; (b) the instrument is in the class of instruments that is the most subordinate and all instruments in that class have identical features; (c) the instrument has no other characteristics that would meet the definition of a financial liability; and (d) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity (excluding any effects of the instrument itself). Profit or loss or change in recognized net assets for this purpose is as measured in accordance with relevant PFRSs. In addition to the criteria set out above, the entity must have no other instrument that has terms equivalent to (d) above and that has the effect of substantially restricting or fixing the residual return to the holders of the puttable financial instruments.

- ***PAS 1 (Revised), Presentation of Financial Statements*** **.** This standard will become effective for financial years beginning on or after January 1, 2009. PAS 1 has been revised to enhance the usefulness of information presented in the unaudited consolidated financial statements. The key changes are: (1) the statement of changes in equity includes only transactions with owners and all non-owner changes are presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity ; (2) the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in profit or loss together with other comprehensive income . The revisions specify what is included in other comprehensive income, such as gains and losses on available-for-sale financial investments, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate unaudited consolidated statement of income and a statement of comprehensive income; (3) amounts reclassified to profit or loss that were previously recognized in other comprehensive income (for example, previously unrealized gains on available-for-sale financial investments that are

sold) must be separately disclosed, either in the statement of comprehensive income itself or in the notes; (4) entities must disclose the income tax relating to each component of other comprehensive income. This can be presented in the statement of comprehensive income itself or in the notes; (5) when an entity restates its financial statements or retrospectively applies a new accounting policy, a statement of financial position must be presented as at the beginning of the earliest comparative period; (6) dividends to equity holders can now be shown only in the statement of changes in equity or in the notes; and (7) the introduction of new terminology, replacing balance sheet with statement of financial position and cash flow statement with statement of cash flows , although the titles are not obligatory. The requirements of this standard will be included in our unaudited consolidated financial statements for the fiscal year ending December 31, 2009.

• ***Philippine Interpretation IFRIC 13, Customer Loyalty Programmes*** **.** This interpretation will become effective for financial years beginning on or after July 1, 2008. This Interpretation requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transactions. The consideration received in the sales transactions is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. If the cost of fulfilling the awards is expected to exceed the consideration received, the entity will have an onerous contract and a liability for the excess must be recognized.

We expect that the adoption of the pronouncements listed above will have no significant impact on our unaudited consolidated financial statements in the period of our initial application, except that management is still evaluating the impact of Philippine Interpretations IFRIC 13 and PFRS 8.

3. Management s Use of Judgments, Estimates and Assumptions

The preparation of our unaudited consolidated financial statements in conformity with PFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the reporting date. The uncertainties inherent in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future.

Judgments

In the process of applying the PLDT Group s accounting policies, management has made the following judgments, apart from those including estimations and assumptions, which have the most significant effect on the amount

recognized in the unaudited consolidated financial statements.

Determination of functional currency

The functional currencies of the entities under PLDT Group are the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue and cost of rendering services.

Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional and presentation currency of the PLDT Group (except for SCH, SGP, 3rd Brand, Mabuhay Satellite, PLDT Global, Digital Paradise Thailand and SPi and certain of its subsidiaries) is the Philippine peso. The functional and presentation currency of Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries is the U.S. dollar; Thai baht for Digital Paradise Thailand and Singapore dollar for SCH, SGP and 3rd Brand.

Leases

We have various lease agreements as a lessee in respect of our certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us or retained at the lessor based on *PAS 17*, *Leases*, which requires us to make judgments and estimates of transfer of risk and rewards of ownership of the leased properties. Total lease expense arising from operating leases amounted to Php1,656 million and Php1,410 million for the six months ended June 30, 2008 and 2007, respectively. Total finance lease obligations as at June 30, 2008 and December 31, 2007 amounted to Php192 million and Php496 million, respectively. See *Note 18 Interest-bearing Financial Liabilities, Note 24 Contractual Obligations and Commercial Commitments* and *Note 26 Financial Assets and Liabilities*.

Determination of fair values of financial assets and liabilities

We carry certain of our financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments for the fair values of financial assets and liabilities. In addition, certain liabilities acquired through debt exchange and restructuring are required to be carried at fair value at the time of the debt exchange and restructuring. See *Note 26 Financial Assets and Liabilities*. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates), the amount of changes in fair value would differ if we utilized a different valuation methodology. Any change in fair value of these financial assets and liabilities would directly affect our unaudited consolidated statement of income and consolidated statement of changes in equity.

Total fair values of financial assets and liabilities as at June 30, 2008 amounted to Php48,319 million and Php109,622 million, respectively, while the total fair values of financial assets and liabilities as at December 31, 2007 amounted to Php46,661 million and Php111,086 million, respectively. See *Note 26 Financial Assets and Liabilities*.

Legal contingencies

We are currently involved in various legal proceedings. Our estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling our defense in these matters and is based upon an analysis of potential results. We currently do not believe these proceedings will have a material adverse effect on our unaudited consolidated financial statements. It is possible, however, that future results of operations could be materially affected by changes in our estimates or in the effectiveness of our strategies relating to these proceedings. See *Note 25 Provisions and Contingencies.*

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

Estimating useful lives of property, plant and equipment

We estimate the useful lives of our property, plant and equipment based on the periods over which our assets are expected to be available for use. Our estimation of the useful lives of our property, plant and equipment is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property, plant and equipment are reviewed at least at each financial year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property, plant and equipment would increase our recorded operating expenses and decrease our noncurrent assets.

Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization amounted to Php155,778 million and Php159,414 million as at June 30, 2008 and December 31, 2007, respectively. See *Note 8 Property, Plant and Equipment* and *Note 26 Financial Assets and Liabilities*.

Investment properties

We have adopted the fair value approach in determining the carrying value of our investment properties. We opted to rely on independent appraisers in determining the fair values of our investment properties, and such fair values were determined based on recent prices of similar properties, with adjustments to reflect any changes in economic conditions since the date of those transactions. The amounts and timing of recorded changes in fair value for any period would differ if we made different judgments and estimates or utilized a different basis for determining fair value.

Total carrying values of our investment properties as at June 30, 2008 and December 31, 2007 amounted to Php558 million and Php577 million, respectively. See *Note 10 Investment Properties* and *Note 26 Financial Assets and Liabilities*.

Goodwill and intangible assets

Our unaudited consolidated financial statements and results of operations reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the purchase method of accounting which requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree s identifiable assets and liabilities at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in the unaudited consolidated balance sheet. Our business acquisitions have resulted in goodwill and intangible assets, which are subject to annual impairment test and amortization, respectively. See *Note 11 Goodwill and Intangible Assets*. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree s assets and liabilities can materially affect our results of operations.

Total carrying values of goodwill and intangible assets as at June 30, 2008 and December 31, 2007 amounted to Php12,573 million and Php11,721 million, respectively. See *Note 11 Goodwill and Intangible Assets* and *Note 26 Financial Assets and Liabilities*.

Realizability of deferred income tax assets

We review the carrying amounts of deferred income tax assets at each balance sheet date and reduce these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that we will generate sufficient taxable income to allow all or

part of our deferred income tax assets to be utilized.

Based on the above assessment, we have not recognized certain of our deferred income tax assets as at June 30, 2008 and December 31, 2007 amounting to Php1,308 million and Php1,122 million, respectively. Total net deferred income tax assets as at June 30, 2008 and December 31, 2007 amounted to Php10,398 million and Php13,757 million, respectively, while total net deferred income tax liabilities as at June 30, 2008 and December 31, 2007 amounted to Php1,646 million and Php2,155 million, respectively. See *Note 6 Income Tax*.

Estimating allowance for doubtful accounts

We estimate the allowance for doubtful accounts related to our trade receivables that are specifically identified as doubtful of collection. The level of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. In these cases, we use judgment based on the best available facts and circumstances, including but not limited to, the length of our relationship with the customer and the customer s credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristic, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on historical loss experience using various factors such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Impairment provision for receivable recognized in our unaudited consolidated statements of income amounted to Php640 million and Php649 million for the six months ended June 30, 2008 and 2007, respectively. Trade and other receivables, net of impairment, amounted to Php13,349 million and Php12,645 million as at June 30, 2008 and December 31, 2007, respectively. See *Note 5 Income and Expenses, Note 14 Trade and Other Receivables* and *Note 26 Financial Assets and Liabilities*.

Estimation of pension cost and other retirement benefits

The determination of our obligation and cost for pension and other retirement benefits is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in *Note 23 Share-based Payments and Employee Benefits* and include, among other things, discount rates, expected rates of

return on plan assets and rates of compensation increases. Actual results that differ from our assumptions are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension and other retirement obligations.

Total pension benefit costs amounted to Php365 million and Php778 million for the six months ended June 30, 2008 and 2007, respectively. Unrecognized net actuarial gain as at June 30, 2008 and December 31, 2007 amounted to Php1,334 million and Php1,344 million, respectively. The accrued benefit costs as at June 30, 2008 and December 31, 2007 amounted to Php3,128 million and Php2,985 million, respectively. See *Note 23 Share-based Payments and Employee Benefits*.

Share-based payment transactions

Our LTIP grants SARs to our eligible key executives and advisors. Under the LTIP, we recognize the services we receive from the eligible key executives and advisors, and our liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. We measure our liability, initially and at each reporting date until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. We recognize any changes in fair value at each reporting date until settled, in the results of operations for the period. The estimates and assumptions are described in *Note 23 Share-based Payments and Employee Benefits* and include, among other things, annual stock volatility, risk-free interest rate, dividends yield, the remaining life of options, and the fair value of common stock. While management believes that the estimates and assumptions used are reasonable and appropriate, significant differences in our actual experience or significant changes in the estimates and assumptions may materially affect the stock compensation costs charged to operations. The fair value of the LTIP recognized as an income for the six months ended June 30, 2008 amounted to Php493 million and the fair value of the LTIP recognized as an expense for the six months ended June 30, 2007 amounted to Php583 million. As at June 30, 2008 and December 31, 2007, outstanding LTIP liability amounted to Php983 million and Php1,494 million, respectively. See *Note 5 Income and Expenses* and *Note 23 Share-based Payments and Employee Benefits*.

Asset retirement obligations

Asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration/dismantlement date, discounted at the balance sheet date using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php1,038 million and Php952 million as at June 30, 2008 and December 31, 2007, respectively. See *Note 8 Property, Plant and Equipment* and *Note 19 Deferred Credits and Other*

Noncurrent Liablities.

Asset impairment

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Determining the fair values of property, plant and equipment, investments and intangible assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires us to make estimates and assumptions that can materially affect our unaudited consolidated financial statements. Future events could cause us to conclude that property, plant and equipment, investments and intangible assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future additional impairment charges under PFRS. Total impairment charges for the six months ended June 30, 2008 and 2007 amounted to Php719 million and Php732 million, respectively. See *Note 4 Segment Information* and *Note* 5 *Income and Expenses*.

The carrying values of our property, plant and equipment, investments in associates, goodwill and intangible assets and trade and other receivables are separately disclosed in *Notes 8, 9, 11 and 14*, respectively.

Revenue recognition

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments,

which historically are not material to our unaudited consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates will not result in material adjustments in future periods.

Revenues under a multiple element arrangement specifically applicable to our wireless business are split into separately identifiable components and recognized when the related components are delivered in order to reflect the substance of the transaction. The fair value of components is determined using verifiable objective evidence.

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and such amount is determined to be recoverable.

We recognize our revenues from installation and activation related fees and the corresponding costs over the expected average periods of customer relationship for fixed line and cellular services. We estimate the expected average period of customer relationship based on our most recent churn-rate analysis.

4. Segment Information

Operating segments are components of the PLDT Group that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of PLDT), whose operating results are regularly reviewed by the enterprise s chief operating decision-maker to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information are available. The accounting policies of the reportable segments are the same as those described in *Note 2 Summary of Significant Accounting Policies and Practices*.

We have organized our business into three main segments:

• Wireless wireless telecommunications services provided through our cellular service providers namely, Smart and Piltel, SBI, our wireless broadband provider, Wolfpac, our wireless content operator, and Mabuhay Satellite and ACeS Philippines, our wireless broadband satellite and other service operators;

• Fixed Line fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT s subsidiaries ClarkTel, SubicTel, Maratel, Piltel (on June 4, 2008, PLDT acquired the fixed line assets of Piltel), BCC, PLDT Global and SNMI, which together account for approximately 3% of our consolidated fixed line subscribers; and

• ICT information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by ePLDT; customer interaction services (formerly referred to as call center business) provided under the umbrella brand name *ePLDT Ventus*, including Ventus, Parlance and Vocativ; knowledge processing solutions services (formerly referred to as business process outsourcing) provided through the SPi Group; and internet access and online gaming services provided by ePLDT s subsidiaries Infocom, Digital Paradise, netGames and Level Up!.

Transfer prices between business segments are set on terms similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. These transfers are eliminated upon consolidation.

Most of our revenues are derived from our operations within the Philippines.

The segment assets and liabilities as at June 30, 2008 and December 31, 2007 and results of operations and cash flows of our reportable business segments for the six months ended June 30, 2008 and 2007 are as follows:

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Total
			(in million pesos)		
As at and for the six months ended June 30, 2008 (Unaudited)					
Revenues and Other Income					
Service revenues	45,779	24,582	4,964	(4,978)	70,347
External party	45,585	20,151	4,611		70,347
Inter-segment transactions	194	4,431	353	(4,978)	
Gains (losses) on derivative transactions net	(148)	4,188	(31)	(8)	4,001
Non-service revenues (Note 5)	910	179	201	(35)	1,255
External party	910	179	166		1,255
Inter-segment transactions			35	(35)	
Interest income	652	227	9		888
Equity share in net gains of subsidiaries			3		3
Others	205	953	25	(62)	1,121
External party	170	927	24		1,121
Inter-segment transactions	35	26	1	(62)	
Segment income	47,398	30,129	5,171	(5,083)	77,615

Result					
Income before income tax	21,870	8,241	2	(44)	30,069
Provision for (benefit from) income tax (Notes 2 and 6)	7,619	2,824	(6)		10,437
Net income for the period	14,251	5,417	8	(44)	19,632
Assets and liabilities					
Segment assets	101,034	177,153	18,661	(70,088)	226,760
Deferred income tax assets (Notes 2, 6 and 26)	349	9,946	103		10,398
Total assets	101,383	187,099	18,764	(70,088)	237,158
Segment liabilities	63,624	79,672	5,591	(19,303)	129,584
Deferred income tax liabilities (Notes 2, 6 and 26)	1,187		459		1,646
Total liabilities	64,811	79,672	6,050	(19,303)	131,230
Cash flows					
Net cash provided by (used in):					
Operating activities	22,745	16,759	881		40,385
Investing activities	(5,999)	8,201	(755)	(10,050)	(8,603)
Financing activities	(10,430)	(31,017)	125	10,050	(31,272)
Other segment information					
Capital expenditures	5,032	3,294	358		8,684
Depreciation and amortization (Note 8)	6,188	6,111	423		12,722
Interest on loans and related items net (Note 5)	688	1,998	17		2,703
Asset impairment (Notes 3, 5, 8, 9 and 11)	223	490	6		719
As at December 31, 2007 (Audited) and for the six months ended June 30, 2007 (Unaudited)					
Revenues and Other Income					
Service revenues	42,964	23,709	4,806	(4,338)	67,141
External party	42,735	19,767	4,639		67,141
Inter-segment transactions	229	3,942	167	(4,338)	
Foreign exchange gains (losses) net	992	54	(51)		995
Non-service revenues (Note 5)	1,142	89	162	(77)	1,316
External party	1,142	89	85		1,316
Inter-segment transactions			77	(77)	
Interest income	499	139	8		646
Others	99	388	13	(47)	453
External party	84	361	8		453
Inter-segment transactions	15	27	5	(47)	
Segment income	45,696	24,379	4,938	(4,462)	70,551
Result					
Income (loss) before income tax	22,562	3,582	(35)		26,109
Provision for (benefit from) income tax (Notes 2 and 6)	7,412	1,383	(38)		8,757
Net income for the period	15,150	2,199	3		17,352

Assets and liabilities					
Segment assets	90,708	180,529	18,290	(63,126)	226,401
Deferred income tax assets (Notes 2, 6 and 26)	1,640	12,040	77		13,757
Total assets	92,348	192,569	18,367	(63,126)	240,158
Segment liabilities	50,573	78,323	5,697	(9,101)	125,492
Deferred income tax liabilities (Notes 2, 6 and 26)	1,660		495		2,155
Total liabilities	52,233	78,323	6,192	(9,101)	127,647
Cash flows					
Net cash provided by (used in):					
Operating activities	24,752	11,617	2,156	(1)	38,524
Investing activities	(12,748)	12,849	(1,967)	(17,999)	(19,865)
Financing activities	(17,154)	(23,398)	53	18,000	(22,499)
Other segment information					
Capital expenditures	4,103	5,587	276		9,966
Depreciation and amortization (Note 8)	5,893	6,508	475		12,876
Interest on loans and related items net (Note 5)	730	2,636	15		3,381
Provisions		19			19
Asset impairment (Notes 3, 5, 8, 9 and 11)	198	510	24		732

5. Income and Expenses

Non-service Revenues

	Six Months Ended June 30,	
	2008	2007
	(Unaudited)	
	(in million pesos)	
Sale of computers, cellular handsets and cellular SIM-packs	**1,089**	1,231
Point-product sales	**166**	85
	1,255	1,316

Compensation and Employee Benefits

	Six Months Ended June 30,	
	2008	2007
	(Unaudited)	
	(in million pesos)	
Salaries and other employee benefits	**9,192**	8,442
Pension (Notes 3 and 23)	**365**	778
Manpower rightsizing program	**308**	51
Incentive plans (Notes 3 and 23)	**(493)**	583
	9,372	9,854

Financing Costs net

	Six Months Ended June 30,	
	2008	2007
	(Unaudited)	
	(in million pesos)	
Interest on loans and related items (Notes 18 and 26)	**3,045**	3,636
Accretion on financial liabilities net (Notes 2, 18 and 26)	**485**	562
Financing charges (Note 26)	**30**	37
Dividends on preferred stock subject to mandatory redemption (Notes 7 and 18)	**4**	9
Capitalized interest (Notes 2 and 8)	**(342)**	(255)
	3,222	3,989

Interest expense for short-term borrowings for the six months ended June 30, 2008 and 2007 amounted to Php17 million and Php15 million, respectively.

Cost of Sales

Six Months Ended June 30,

	2008	2007
	(Unaudited)	
	(in million pesos)	
Cost of computers, cellular handsets and cellular SIM-packs sold	**2,044**	2,405
Cost of point-product sales	**189**	143
Cost of satellite air time and terminal units (Notes 22 and 24)	**75**	86
	2,308	2,634

Asset Impairment

	Six Months Ended June 30,	
	2008	2007
	(Unaudited)	
	(in million pesos)	
Trade and other receivables (Notes 3 and 14)	**640**	649
Write-down of inventories to net realizable value	**79**	62
Goodwill and intangible assets (Note 11)		19
Property, plant and equipment (Note 8)		2
	719	732

6. Income Tax

The net components of deferred income tax assets (liabilities) recognized in the unaudited consolidated balance sheets are as follows:

	June 30, 2008	December 31, 2007
	(Unaudited)	(Audited)
	(in million pesos)	
Net assets	**10,398**	13,757
Net liabilities	**(1,646)**	(2,155)

The components of the consolidated net deferred income tax assets and liabilities are as follows:

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
	(in million pesos)	
Net assets:		
Accumulated allowance for doubtful accounts	**3,222**	3,428
Net operating loss carryover, or NOLCO	**2,839**	6,055
Unearned revenues	**2,635**	1,789
Unrealized foreign exchange losses	**1,526**	544
Pension and other employee benefits	**1,039**	1,096
MCIT	**1,023**	645
Unamortized past service pension costs	**890**	985
Derivative financial instruments	**858**	2,308
Provisions for impaired assets	**510**	494
Accumulated write-down of inventories to net realizable values	**225**	224
Leases	**69**	160
Executive stock option plan	**15**	32
Intangible assets and fair value adjustments on assets acquired	**2**	2
Excess of fair value over cost of investment properties	**(78)**	(80)
Capitalized taxes and duties net of amortization	**(341)**	(376)
Capitalized foreign exchange differential	**(704)**	(783)
Undepreciated capitalized interest charges	**(3,399)**	(3,572)
Fixed asset impairment		824
Preferred stock subject to mandatory redemption		(100)
Others	**67**	82
	10,398	13,757
Net liabilities:		
Unearned revenues	**793**	825
Asset retirement obligation net of undepreciated capitalized asset	**362**	332
Fixed asset impairment	**239**	277
Accumulated provision for doubtful accounts	**238**	304
Pension and other employee benefits	**155**	217
Derivative financial instruments	**154**	(164)
Provisions for impaired assets	**57**	348
Leases	**36**	42
Unamortized past service pension costs	**7**	7
Excess of fair value over cost of investment properties	**(8)**	(60)
Foreign exchange differential capitalized	**(82)**	
Interest charges capitalized	**(687)**	(718)
Intangible assets and fair value adjustments on assets acquired	**(705)**	(736)
Unrealized foreign exchange gains	**(993)**	(1,613)
Gain on debt exchange and debt restructuring transactions	**(1,229)**	(1,228)
Others	**17**	12
	(1,646)	(2,155)

Provision for corporate income tax consists of:

	Six Months Ended June 30,	
	2008	2007
	(Unaudited)	
	(in million pesos)	
Current	**7,055**	4,806
Deferred	**3,382**	3,951
	10,437	8,757

The reconciliation between the provision for income tax at the applicable statutory tax rates and the actual provision for corporate income tax is as follows:

	Six Months Ended June 30,	
	2008	2007
	(Unaudited)	
	(in million pesos)	
Provision for corporate income tax at the applicable statutory tax rates	**10,524**	9,139
Tax effects of:		
Non-deductible expenses	**286**	210
Loss (income) subject to lower tax rate	**241**	(211)
Net movement in unrecognized deferred income tax assets	**187**	
Equity share in net loss of investees	**15**	3
Income subject to final tax	**(336)**	(236)
Income not subject to tax	**(480)**	(148)
Actual provision for corporate income tax (Note 4)	**10,437**	8,757

Mabuhay Satellite and SubicTel are registered as Subic Bay Freeport Enterprises while ClarkTel is registered as a Clark Special Economic Zone Enterprise under Republic Act No. 7227, or R.A. 7227, otherwise known as the Bases Conversion and Development Act of 1992. As registrants, Mabuhay Satellite, SubicTel and ClarkTel are entitled to all the rights, privileges and benefits established thereunder including tax and duty-free importation of capital equipment and a special income tax rate of 5% of gross income, as defined in R.A. 7227.

On January 3, 2007, the BOI approved ePLDT s application for pioneer status for its new data center facility as a new IT service firm in the field of services related to Internet Data Center. ePLDT was granted a six-year income tax

holiday, or ITH, for its new data center facility from the earlier of January 2007 and the actual start of commercial operations. ePLDT started commercial operations of its new data center facility in February 2007.

On August 13, 2007, ePLDT received approval from the Philippine Economic Zone Authority, or PEZA, to declare the Vitro Data Center Building as a PEZA-registered IT Building EcoZone facility enabling prospective clients to apply for fiscal incentives should they qualify as a PEZA-registered entity. However, ePLDT as a developer and operator of Vitro Data Center Building is not entitled to PEZA incentives under R.A. No. 7916, or R.A. 7916, otherwise known as The Special Economic Zone Act of 1995 , as amended by Republic Act No. 8748, or R.A. 8748.

Parlance is registered with the BOI as a new IT export service firm in the field of customer interaction center on a pioneer status. Under this registration, Parlance is entitled to certain tax incentives, including an ITH for six years starting in June 2002. Parlance is required to comply with specific terms and conditions stated in its BOI registration. Parlance has a pending application for two year extension with the BOI.

Vocativ is registered with the PEZA as an Ecozone Export Enterprise to develop and operate a customer interaction services that serves overseas clients by providing customer relationship management services. As a registered enterprise, Vocativ is entitled to certain tax and non-tax incentives which include, among other things, tax and duty-free importations, exemption from local tax and an ITH for four years from start of commercial operations. After the ITH period, Vocativ is liable for a final tax, in lieu of all taxes, of 5% gross income less allowable deductions as defined under R.A. 7916. The 5% final tax must be paid and remitted in accordance with the amendments contained in R.A. 8748, as follows: (a) 3% to the National Government; and (b) 2% which will be directly remitted by the business establishments to the treasurer s office of the municipality or city where the enterprise is located.

On December 5, 2005, Vocativ received approval from PEZA for the adjustment of the start of its commercial operations, effectively extending the ITH to end of March 2006. On June 30, 2006, PEZA approved Vocativ s ITH extension for another year until April 2007. On September 3, 2007, PEZA again approved Vocativ s ITH extension for another year which expired in March 2008.

Ventus and two of its customer interaction projects are registered with the BOI as a new IT export service firm in the field of customer interaction center on a pioneer status. Under their registrations, Ventus, Ventus Iloilo and Pasig customer interaction projects are entitled to certain tax incentives such as an ITH for six years starting March 2005 for Ventus and Ventus Iloilo customer interaction projects and August 2006 for Ventus Pasig customer interaction project. In relation to this, they are required to comply with specific terms and conditions stated in their BOI registration.

iPlus Intelligent Network, Inc., or iPlus, is a wholly-owned subsidiary of ePLDT and is registered with the BOI as a new IT service firm in the field of application service provider on a pioneer status. Under such registration, iPlus is entitled to a six-year ITH incentive from the actual start of commercial operations until January 1, 2009.

Digital Paradise is registered with the BOI as a new IT service firm in the field of community access on a non-pioneer status. Under the provisions of the registration, Digital Paradise s sales generated from its own community access activity and franchise fees are entitled to an ITH for a period of four years beginning December 2002. In December 2006, the BOI approved Digital Paradise s application for a status upgrade from non-pioneer to pioneer, accordingly extending the ITH period for another two years starting January 2007.

Level Up! was originally registered with the BOI as a new IT service firm in the field of application service provider on a non-pioneer status. Under such registration, Level Up! is entitled to certain tax incentives, which includes a four-year ITH from January 2003 and a tax credit for taxes on duties on materials used in export products for ten years starting January 2003. In April 2004, the BOI approved Level Up! s request for upgrading its status from non-pioneer to pioneer in connection with its IT service activity in the field of application service provider for entertainment and educational project. Accordingly, the ITH period was extended from four years to six years to expire on January 2009.

In September 2006, PEZA approved SPi s application for registration as an ecozone information technology enterprise to provide IT enabled services with emphasis on the creation of electronic discovery, presentation of content in electronic information formats, data analysis, capture, abstracting and data processing, design, development and implementation of healthcare documentation solutions. As a registered enterprise, SPi is entitled to certain tax and non-tax incentives which include, among other things, tax and duty-free importations, exemption from local tax and an ITH for four years starting from June 2002. After the ITH period, SPi is liable for a final tax, in lieu of all taxes. The final tax is computed at 5% of gross income, in lieu of all taxes, less allowable deductions as defined under R.A. 7916 and will be paid and remitted in accordance with the amendments contained in R.A. 8748, as follows: (a) 3% to the National Government; and (b) 2% which will be directly remitted by the business establishments to the treasurer s office of the municipality or city where the enterprise is located.

Wolfpac is registered with the BOI as a new IT Service Firm in the field of an Application Service Provider. Under the terms of its registration, it is entitled to certain tax and non-tax incentives which include, among other things, an ITH for four years starting February 2004. On November 29, 2007, the BOI approved Wolfpac s application for a one year extension of ITH incentive on the basis that the capital equipment to labor ratio did not exceed US$10 million as provided under Article 39 of Executive Order, or E.O. 226. The approved bonus is for the period from February 13, 2008 to February 12, 2009.

Smart Broadband, Inc., or SBI, has three registered activities with the BOI on a pioneer status, namely: (i) a new operator of telecommunications systems (inter-exchange carrier for data services); (ii) new information technology service firm in the field of providing internet services; and (iii) a new operator of telecommunications facilities (nationwide broadband wireless access). Under the terms of these registrations, SBI is entitled to certain tax and non-tax incentives which include, among other things, an ITH for six years until February 2007, August 2007 and July 2011, respectively. As at December 31, 2007, the remaining registered activity of SBI in the nationwide broadband wireless access, the first two registered activities have already expired. After the ITH period, SBI will be subjected to 30% regular corporate income tax on taxable income or 2% MCIT on total gross income, whichever is higher.

Income derived from non-registered activities with the BOI is subject to the regular corporate income tax rate enacted as at the balance sheet date.

Consolidated tax incentives that we availed for the six months ended June 30, 2008 and 2007 amounted to Php586 million and Php253 million, respectively.

On May 24, 2005, the President of the Philippines signed into law Republic Act No. 9337, or R.A. 9337, amending certain sections of the National Internal Revenue Code, which took effect on November 1, 2005. R.A. 9337, among others, introduced the following changes:

a. The regular corporate income tax rate for domestic corporations and resident/non-resident foreign corporations increased from 32% to 35% effective November 1, 2005 and will be reduced to 30% effective January 1, 2009;

b. The VAT rate increased from 10% to 12% effective February 1, 2006; and

c. The input VAT on capital goods should be spread evenly over the estimated useful life or sixty months, whichever is shorter, if the acquisition cost, excluding the VAT component thereof, exceeds Php1 million.

Our deferred income tax assets have been recorded to the extent that such deferred income tax assets are expected to be utilized against sufficient future taxable profit. We had unrecognized deferred income tax assets of Php1,308 million and Php1,122 million largely pertaining to MCIT, NOLCO and asset impairments as at June 30, 2008 and December 31, 2007, respectively.

The breakdown of our consolidated unutilized NOLCO as at June 30, 2008 is as follows:

Year Incurred	**Year Expiring**	**(in million pesos)**
2007	2010	228
2006	2009	5,424
2005	2008	3,109
		8,761
Tax benefit from NOLCO		2,918
Unrecognized deferred income tax assets from NOLCO as at June 30, 2008		(79)
		2,839

The breakdown of our consolidated excess MCIT as at June 30, 2008 is as follows:

Year Incurred	**Year Expiring**	**(in million pesos)**
2008	2011	383
2007	2010	641
2006	2009	498
2005	2008	484
		2,006
Unrecognized deferred income tax assets from MCIT as at June 30, 2008		(983)
		1,023

7. Earnings Per Common Share

The following table presents information necessary to calculate the earnings per common share:

	Six Months Ended June 30,			
	2008		2007	
	Basic	**Diluted**	Basic	Diluted
	(Unaudited)			
	(in million pesos)			
Consolidated net income attributable to equity holders of PLDT	**19,270**	**19,270**	17,079	17,079
Dividends on convertible preferred shares	**(227)**	**(227)**	(227)	(227)
Dividends on dilutive preferred stock subject to mandatory redemption charged to interest expense for the period				9
Accretion of preferred stock subject to mandatory redemption				71
Foreign exchange gains on preferred stock subject to mandatory redemption				(67)
Consolidated net income applicable to common shares	**19,043**	**19,043**	16,852	16,865
	(in thousands, except per share amounts)			
Outstanding common shares at beginning of period	**188,741**	**188,741**	188,435	188,435
Effect of issuance of common shares during the period	**370**	**370**	161	161
Average incremental number of shares under ESOP during the period		**14**		50
Effect of purchase of treasury stock during the period	**(381)**	**(381)**		
Common shares equivalent of convertible preferred shares deemed dilutive:				

Preferred Stock Series VI (Note 18)				743
Weighted average number of common shares for the period	**188,730**	**188,744**	188,596	189,389
Earnings per common share	**Php100.90**	**Php100.89**	Php89.35	Php89.05

Basic EPS is calculated by dividing the consolidated net income for the period attributable to common shareholders (consolidated net income adjusted for dividends on all series of preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares outstanding during the period, after giving retroactive effect to any stock dividend declarations.

Diluted EPS is calculated in the same manner assuming that, at the beginning of the period or at the time of issuance during the period, all outstanding options are exercised and convertible preferred shares are converted to common shares, and appropriate adjustments to consolidated net income are effected for the related income and expenses on preferred shares. Outstanding stock options will have a dilutive effect only when the average market price of the underlying common share during the period exceeds the exercise price of the option.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have an anti-dilutive effect, basic and diluted EPS are stated at the same amount.

When required dividends declared on each series of convertible preferred shares divided by the number of equivalent common shares, assuming such convertible preferred shares are converted to common shares, decreases the basic EPS, then such convertible preferred shares are deemed dilutive. As such, the diluted EPS is calculated by dividing the consolidated net income attributable to common shareholders (consolidated net income, adding back any dividends and/or other charges recognized for the period related to the dilutive convertible preferred shares classified as liability, less dividends on non-dilutive preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares including the weighted average number of common shares held as treasury shares, the common share equivalent arising from the conversion of the dilutive convertible preferred shares.

Series VI Convertible Preferred Stocks in 2007 were deemed dilutive based on a calculation of the required dividends on these preferred shares divided by the number of equivalent common shares assuming such preferred shares are converted into common shares, including the effect of shares under ESOP and treasury shares, and compared against the basic EPS. Since the amount of dividends on the Series A to HH, Series V and VI Convertible Preferred Stocks in 2008 and Series A to HH and Series V Convertible Preferred Stock in 2007 over its equivalent number of common shares increased the basic EPS, these Convertible Preferred Stocks were anti-dilutive.

On January 29, 2008, our board of directors approved a share buyback program of up to two million shares of PLDT s common stock, representing approximately 1.1% of PLDT s total outstanding shares of common stock. As at June 30, 2008, we acquired and paid a total of 1,383,410 shares of common stock at a weighted average price of Php2,568 for a total of Php3,553 million based on the share buyback program. The effect of the acquisition of shares of PLDT s

common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for the six months ended June 30, 2008. On August 5, 2008, our board of directors approved a second share buyback program of up to another 2 million shares representing approximately 1.1% of PLDT s total outstanding common shares. See *Note 17 Equity* and *Note 26 Financial Assets and Liabilities* for further discussion.

Dividends Declared For The Six Months Ended June 30, 2008 (Unaudited)

	Date			Amount	
Class	**Approved**	**Record**	**Payable**	**Per Share**	**Total** (in million pesos)
Preferred Stock Subject to Mandatory Redemption					
Series V	March 4, 2008	March 20, 2008	April 15, 2008	Php4.675	
	**May 6, 2008	June 4, 2008	June 23, 2008	0.051944 per day	
	June 10, 2008	June 26, 2008	July 15, 2008	4.675	
Series VI	March 4, 2008	March 20, 2008	April 15, 2008	US$0.09925	2
	**May 6, 2008	June 4, 2008	June 23, 2008	0.001103 per day	1
	June 10, 2008	June 26, 2008	July 15, 2008	0.09925	
Charged to income					3
10% Cumulative Convertible Preferred Stock					
Series CC	January 29, 2008	February 28, 2008	March 31, 2008	Php1.00	17
Series DD	January 29, 2008	February 15, 2008	February 29, 2008	1.00	3
Series EE	March 25, 2008	April 24, 2008	May 30, 2008	1.00	
					20
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 29, 2008	February 22, 2008	March 15, 2008	Php	12
	May 6, 2008	May 23, 2008	June 15, 2008		12
					24
Common Stock					
Regular Dividend	March 4, 2008	March 19, 2008	April 21, 2008	Php68.00	12,853

Special Dividend	March 4, 2008	March 19, 2008	April 21, 2008	56.00	10,585
					23,438
Charged to retained earnings					23,482

** Dividends are declared based on total amount paid up.*

*** Only the holders of Series V and VI Convertible Preferred Stock whose shares were originally issued on June 4, 2001 and mandatorily converted on June 5, 2008 shall be entitled to this final dividend.*

Dividends Declared After June 30, 2008

	Date			Amount	
Class	**Approved**	**Record**	**Payable**	**Per Share**	**Total** (in million pesos)
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	July 8, 2008	August 7, 2008	September 15, 2008	Php	12
Convertible Preferred Stock					
Series A	July 8, 2008	August 1, 2008	August 29, 2008	Php1	