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 2006, which includes financial statements for the six months ended June 30, 2006

Commission File Number 1-03006

Philippine Long Distance Telephone Company
(Exact Name of Registrant as specified in its Charter)

Ramon Cojuangco Building
Makati Avenue
Makati City
Philippines
(Address of principal executive offices)

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

Form 20-F: √ Form 40-F:

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

Yes: No: √

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the Six Months Ended June 30, 2006

In the following discussion and analysis of our financial condition and results of operations, unless the context indicates or otherwise requires, references to "we," "us," "our" or "PLDT Group" mean the Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to "PLDT" mean the Philippine Long Distance Telephone Company, not including its consolidated subsidiaries (see Note 2 – Summary of Significant Accounting Policies and Practices to the accompanying unaudited consolidated financial statements for a list of these subsidiaries, including a description of their respective principal business activities).

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

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "pesos," "Philippine pesos" or "Php" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "¥" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php53.220 to US$1.00, the volume weighted average exchange rate at June 30, 2006 quoted through the Philippine Dealing System.

Some information in this report may contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. We have based these forward-looking statements on our current beliefs, expectations and intentions as to facts, actions and events that will or may occur in the future. Such statements generally are identified by forward-looking words such as "believe," "plan," "anticipate," "continue," "estimate," "expect," "may," "will" or other similar words.

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

Financial Highlights and Key Performance Indicators

(in millions, except for operational data, exchange rates and earnings per common share)	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)	Increase (Decrease) Amount	%
Consolidated Balance Sheets				
Total assets	Php244,771	Php249,713	(Php4,942)	(2)
Property, plant and equipment	173,832	176,974	(3,142)	(2)
Cash and cash equivalents and short-term investments	29,138	32,810	(3,672)	(11)
Total equity	85,870	74,369	11,501	15
Interest-bearing financial liabilities	101,642	116,616	(14,974)	(13)
Notes payable and long-term debt	*90,691*	*103,544*	*(12,853)*	*(12)*
Net debt to equity ratio[1]	0.72x	0.95x	–	–

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Increase (Decrease) Amount	%
	(Unaudited)			
Consolidated Statements of Income				
Revenues and other income	Php62,361	Php61,138	Php1,223	2
Expenses	43,736	39,103	4,633	12
Income before income tax	18,625	22,035	(3,410)	(15)
Net income attributable to equity holders of PLDT	15,306	16,520	(1,214)	(7)
Net income	15,639	16,552	(913)	(6)
Net income margin	25%	27%	–	–
Earnings per common share – basic	83.02	92.44	(9.42)	(10)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	33,601	35,151	(1,550)	(4)
Net cash used in investing activities	13,898	2,220	11,678	526
Capital expenditures	*12,385*	*7,012*	*5,373*	*77*
Net cash used in financing activities	23,943	24,528	(585)	(2)
Operational Data				
Number of cellular subscribers	22,465,156	20,789,469	1,675,687	8
Number of fixed lines in service	2,070,721	2,137,813	(67,092)	(3)
Number of broadband subscribers	173,693	66,877	106,816	160
Fixed Line	*115,867*	*64,824*	*51,043*	*79*
Wireless	*57,826*	*2,053*	*55,773*	*2,717*
Number of employees	20,618	18,649	1,969	11
Fixed Line	*9,149*	*9,582*	*(433)*	*(5)*
Wireless	*5,189*	*5,156*	*33*	*1*
ICT	*6,280*	*3,911*	*2,369*	*61*

Exchange Rates	Php per US$	Php per JP¥
June 30, 2006	Php53.220	Php0.4650
December 31, 2005	53.062	0.4504
June 30, 2005	56.177	0.5067
December 31, 2004	56.341	0.5495

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

Overview

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

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Pilipino Telephone Corporation, or Piltel, our cellular service providers; Smart Broadband, Inc., or Smart Broadband (formerly known as Meridian Telekoms, Inc., or Meridian), our wireless broadband provider; Wolfpac Mobile, Inc., or Wolfpac, our wireless content operator, Mabuhay Satellite Corporation, or Mabuhay Satellite, ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, and Telesat, Inc., or Telesat, our satellite and very small aperture terminal, or VSAT, operators;

- *Fixed Line* — fixed line telecommunications services are primarily provided through PLDT. We also provide fixed line services through PLDT's subsidiaries PLDT Clark Telecom, Inc., Subic Telecommunications Company, Inc., PLDT-Maratel, Inc., Piltel and Bonifacio Communications Corporation, which together account for approximately 3% of our consolidated fixed lines in service, and PLDT Global Corporation, or PLDT Global; and

- *Information and Communications Technology* — information and communications infrastructure and services for Internet applications, Internet protocol-based solutions and multimedia content delivery provided by PLDT's subsidiary ePLDT, Inc., or ePLDT; call center services provided under one umbrella brand name *ePLDT Ventus*, including Parlance Systems, Inc., or Parlance and Vocativ Systems, Inc., or Vocativ; Internet access and gaming services provided by ePLDT's subsidiaries, Infocom Technologies, Inc. or Infocom, Digital Paradise, Inc., or Digital Paradise, Digital Paradise Thailand, Ltd., or Digital Paradise Thailand, netGames, Inc., or netGames, Airborne Access Corporation, or Airborne Access 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* to the accompanying unaudited consolidated financial statements.

We registered total revenues and other income of Php62,361 million in the first half of 2006, an increase of Php1,223 million, or 2%, as compared to Php61,138 million in the same period in 2005 primarily due to an increase in our service revenues and other income of Php1,097 million and Php165 million, respectively, partially offset by a decline in our non-service revenues of Php39 million.

Expenses increased by Php4,633 million, or 12%, to Php43,736 million in the first half of 2006 from Php39,103 million in the same period in 2005, largely resulting from increases in depreciation and amortization, and financing costs partly offset by lower cost of sales.

As a result of the foregoing, net income attributable to equity holders of PLDT decreased by Php1,214 million, or 7%, to Php15,306 million in the first half of 2006 from Php16,520 million in the same period in 2005. Consequently, basic earnings per common share decreased by 10% to Php83.02 in the first half of 2006 from Php92.44 in the same period in 2005.

Results of Operations

The table below shows the contribution by each of our business segments to our revenues and other income, expenses and net income for the six months ended June 30, 2006 and 2005. Most of our revenues are derived from our operations within the Philippines.

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Total
(in millions)					
For the six months ended June 30, 2006 (Unaudited)					
Revenues and other income	Php39,912	Php24,318	Php2,011	(Php3,880)	Php62,361
Service	38,591	24,053	1,812	(3,816)	60,640
Non-service	1,188	36	172	(13)	1,383
Equity share in net income of associates	–	–	3	–	3
Other income	133	229	24	(51)	335
Expenses	21,658	24,022	1,936	(3,880)	43,736
Income before income tax	18,254	296	75	–	18,625
Net income for the period	15,301	251	87	–	15,639
Net income attributable to equity holders of PLDT	14,927	251	128	–	15,306
For the six months ended June 30, 2005 (Unaudited)					
Revenues and other income	37,831	24,336	1,587	(2,616)	61,138
Service	36,483	24,235	1,328	(2,503)	59,543
Non-service	1,291	–	215	(84)	1,422
Equity share in net income of associates	–	–	3	–	3
Other income	57	101	41	(29)	170
Expenses	20,305	19,896	1,518	(2,616)	39,103
Income before income tax	17,526	4,440	69	–	22,035
Net income for the period	13,330	3,159	63	–	16,552
Net income attributable to equity holders of PLDT	13,279	3,158	83	–	16,520

Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	Amount	%
Revenues and other income	Php2,081	6	(Php18)	–	Php424	27	(Php1,264)	Php1,223	2
Service	2,108	6	(182)	(1)	484	36	(1,313)	1,097	2
Non-service	(103)	(8)	36	100	(43)	(20)	71	(39)	(3)
Other income	76	133	128	127	(17)	(41)	(22)	165	97
Expenses	1,353	7	4,126	21	418	28	(1,264)	4,633	12
Income before income tax	728	4	(4,144)	(93)	6	9	–	(3,410)	(15)
Net income for the period	1,971	15	(2,908)	(92)	24	38	–	(913)	(6)
Net income attributable to equity holders of PLDT	1,648	12	(2,907)	(92)	45	54	–	(1,214)	(7)

Wireless

Revenues and Other Income

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

The following table summarizes our service and non-service revenues and other income from our wireless business for the six months ended June 30, 2006 and 2005 by service segment:

	Six Months Ended June 30,					
					Increase (Decrease)	
	2006	%	2005	%	Amount	%
(in millions)			(Unaudited)			
Wireless services:						
Service Revenues						
Cellular	Php37,076	93	Php35,233	93	Php1,843	5
Wireless broadband, satellite, VSAT and others	1,515	4	1,250	3	265	21
	38,591	97	36,483	96	2,108	6
Non-service Revenues						
Sale of cellular handsets and SIM-packs	1,188	3	1,291	4	(103)	(8)
Other Income	133	–	57	–	76	133
Total Wireless Revenues and Other Income	Php39,912	100	Php37,831	100	Php2,081	6

Service Revenues

Our wireless service revenues increased by Php2,108 million, or 6%, to Php38,591 million in the first half of 2006 compared to Php36,483 million in the same period in 2005, mainly as a result of the growth of Smart's and Piltel's subscriber base, an increase in international inbound revenues and reductions in domestic interconnection costs due to a shift from off-network to on-network voice and data usage. As a percentage of our total wireless revenues and other income, service revenues increased to 97% in the first half of 2006 compared to 96% in the same period in 2005.

Cellular Service

Our cellular service revenues consist of:

- revenues derived from actual usage of the network by prepaid subscribers and any unused peso value of expired prepaid cards or electronic air time loads, net of content costs and discounts given to dealers;
- monthly service fees from postpaid subscribers, including (1) charges for calls in excess of allocated free local calls, (2) toll charges for national and international long distance calls, (3) charges for text messages of our service customers in excess of allotted free text messages, and (4) charges for value-added services, net of related content provider costs;
- revenues generated from incoming calls and messages to our subscribers, net of interconnection expenses; fees from reciprocal traffic from international correspondents; and revenues from inbound international roaming calls for the service; and
- other charges, including those for reconnection and migration.

Our cellular service revenues in the first half of 2006 amounted to Php37,076 million, an increase of Php1,843 million, or 5%, from Php35,233 million in the same period in 2005. Cellular service revenues accounted for 96% and 97% of our wireless service revenues in the first half of 2006 and 2005, respectively.

As at June 30, 2006, Smart and Piltel cellular subscribers reached 22,465,156, an increase of 1,675,687, or 8%, over their combined cellular subscriber base of 20,789,469 as at June 30, 2005. Prepaid subscribers accounted for 99% of our total subscriber base as at June 30, 2006 and 2005. Prepaid and postpaid subscribers totaled 22,168,122 and 297,034 as at June 30, 2006, reflecting net subscriber activations of 2,039,579 and 16,956, respectively, in the first half of 2006.

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

Beginning March 11, 2005, Smart launched a series of promotions to test the market demand for fixed rate or "bucket" plans for voice and text services. Under a service branded as *Smart 258*, Smart and *Talk 'N Text* subscribers had the option to register for unlimited on-network (Smart-to-Smart) voice calls or unlimited on-network (Smart-to-Smart) text messaging service. Since launch, the promotion has taken on several variations involving changes in load denominations, the periods of network availability (peak/off-peak) as well as a "double text" variation.

The current *Smart 258* promotion has the following features:

- Unlimited Text – Php15, Php30 and Php60 denominations with expiry periods of one, two and four days, respectively, with unlimited on-network text all day service; and
- Text and Call Combo – Php20 load denomination with unlimited text on-network for one day and a call with a maximum duration of five minutes valid within 24 hours.

On August 23, 2005, Smart introduced a flat rate promotion which allows Smart and *Talk 'N Text* prepaid subscribers to make a call to another Smart or *Talk 'N Text* subscriber of up to three minutes for Php10, or extend up to five minutes for a flat rate of Php15. The flat rate promotion was relaunched on February 11, 2006 and has been extended until August 10, 2006.

On February 14, 2006, Smart launched its 3G service on a free-trial basis. Subscribers using Smart's network with 3G handsets in selected key areas could avail of services such as video calling, video streaming, high-speed Internet browsing and special 3G content downloading under Smart's 3G network. Commercial rates were introduced on May 1, 2006 along with new and expanded 3G services. As at June 30, 2006, we offered the following rates for our service:

- Smart-to-Smart video calls are charged Php6.50 per call (same as voice calls) while international video calls, initially available in three countries, are priced similarly to a regular IDD call at US$0.40 per minute;
- all 3G video and audio streaming are charged a Php15 access fee for every 30 minutes plus a separate fee for content;
- 3G Internet and WAP browsing are priced at Php10 for every 30 minutes;
- downloads of 3G content such as video clips, ringtones, visual ringers and games range from Php20 to Php50 per download; and

- Php1 per MMS for MMS among all Smart subscribers and Php2 for Smart-to-other networks.

On April 1, 2006, Smart rolled out *Smart Click*, a chain of mobile Internet cafés. *Smart Click* Internet cafés are currently housed in air-conditioned 40-foot container vans and designed to provide remote communities with high-speed, wireless Internet access nationwide. *Smart Click* has established 18 mobile Internet cafés to-date.

On April 23, 2006, Smart introduced a new variety of top-ups – *Smart Load* "All Text," which allows 10 and 20 messages without expiration for a suggested retail price of Php12 and Php23, respectively. On May 1, 2006, the number of messages allocated for the 10-message load was increased to 15. This promotion offering the additional five messages has been extended until June 30, 2006.

On June 25, 2006, Smart launched another variety of top-ups called *Unli* (short for "unlimited"). *Unli* allows for unlimited on-network texting without need for registration. The *Unli 30* has a Php30 load denomination with an expiration period of two days. The *Unli 40* load denomination offers unlimited on-network texting plus five additional on-network/off-network SMS and two three-minute Smart-to-Smart calls and is also valid for two days.

The following table summarizes key measures of our cellular business as at and for the six months ended June 30, 2006 and 2005:

	Six Months Ended June 30,			
			Increase	
	2006	**2005**	**Amount**	**%**
(in millions)		(Unaudited)		
Cellular service revenues	Php37,076	Php35,233	Php1,843	5
By component	*36,096*	*34,331*	*1,765*	*5*
Voice	17,343	16,890	453	3
Data	18,753	17,441	1,312	8
By service type	*36,096*	*34,331*	*1,765*	*5*
Prepaid	33,693	32,224	1,469	5
Postpaid	2,403	2,107	296	14
Others(1)	*980*	*902*	*78*	*9*

(1) Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, revenues from Smart's public calling offices and payphone businesses, revenues from Wolfpac and Smart Money Holdings Corporation and a small number of leased line contracts.

	June 30,			
			Increase	
	2006	**2005**	**Amount**	**%**
		(Unaudited)		
Cellular subscriber base	22,465,156	20,789,469	1,675,687	8
Prepaid	22,168,122	20,521,216	1,646,906	8
Smart	16,107,431	15,556,780	550,651	4
Piltel	6,060,691	4,964,436	1,096,255	22
Postpaid	297,034	268,253	28,781	11

	Six Months Ended June 30,			
			Increase (Decrease)	
	2006	2005[1]	Amount	%
	(Unaudited)			
Systemwide traffic volumes (in millions)				
Calls (in minutes)	2,832	2,647	185	7
Domestic	1,769	1,912	(143)	(7)
International	1,063	735	328	45
Inbound	982	649	333	51
Outbound	81	86	(5)	(6)
Text messages				
Standard	18,008	20,778	(2,770)	(13)
*25*8 Unlimited	91,851	13,829	78,022	564

*(1) Smart 25*8 *Unlimited Call and Text promotion was launched on March 11, 2005.*

Voice Services

Cellular revenues from voice services, which include all voice traffic and voice value-added services such as voice mail and international roaming, increased by Php453 million to Php17,343 million in the first half of 2006 from Php16,890 million in the same period in 2005 primarily due to an increase in international inbound revenue partly offset by a decrease in domestic voice revenues. The decline in domestic voice revenue may be attributed to the shift of certain subscribers to bucket plans or unlimited text service due to its economic advantages.

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 Php1,312 million, or 8%, to Php18,753 million in the first half of 2006 from Php17,441 million in the same period in 2005. Cellular data services accounted for 51% of cellular service revenues in the first half of 2006, compared to 50% in the same period in 2005.

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

	Six Months Ended June 30,			
			Increase (Decrease)	
	2006	2005	Amount	%
		(Unaudited)		
(in millions)				
Text messaging				
Domestic	Php16,235	Php14,832	Php1,403	9
Standard	10,854	13,749	(2,895)	(21)
258 Unlimited	5,381	1,083	4,298	397
International	853	856	(3)	–
	17,088	15,688	1,400	9
Value-added services				
Non-Zed(1)	1,135	1,138	(3)	–
Smart Zed™	185	287	(102)	(36)
Smart Money	31	47	(16)	(34)
Mobile Banking	3	2	1	50
Roaming SMS and WAP	311	279	32	11
	1,665	1,753	(88)	(5)
Total	Php18,753	Php17,441	Php1,312	8

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

Text messaging-related services contributed revenues of Php17,088 million in the first half of 2006, an increase of Php1,400 million, or 9%, compared to Php15,688 million in the same period in 2005, and accounted for 91% and 90% of the total cellular data revenues in the first half of 2006 and 2005, respectively. The increase in revenues from text messaging-related services resulted mainly from the ongoing *Smart 258 Unlimited Text* promotion and an increase in *Pasa Load* transactions. Text messaging revenues from the *Smart 258* promotions totaled Php5,381 million. Value-added services, which contributed revenues of Php1,665 million in the first half of 2006, decreased by Php88 million from Php1,753 million in the same period in 2005 primarily due to decreased usage of *Smart Zed* and *Smart Money* services, partially offset by higher usage of roaming SMS and WAP in the first half of 2006 as compared to the same period in 2005. The decline in *Smart Zed* usage was due to increased competition from other content providers while the recent restriction on text broadcasting imposed by the NTC to all cellular operators resulted in a decline in both *Zed* and non-Zed revenues.

Standard text messages totaled 18,008 million in the first half of 2006, a decrease of 2,770 million, or 13%, from 20,778 million in the same period in 2005 due to a shift to unlimited texting service. *Smart 258* messages in the first half of 2006 totaled 91,851 million, an increase of 78,022 million as compared to 13,829 million in the same period in 2005.

Subscriber Base, ARPU and Churn Rates

Prepaid subscribers accounted for approximately 99% of our 22,465,156 subscribers as at June 30, 2006, while postpaid subscribers accounted for the remaining 1%. The cellular prepaid subscriber base grew by 8% to 22,168,122 as at June 30, 2006 from 20,521,216 as at June 30, 2005, whereas the postpaid subscriber base increased by 11% to 297,034 as at June 30, 2006 from 268,253 as at June 30, 2005.

Our net subscriber activations (reductions) for the six months ended June 30, 2006 and 2005 were as follows:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2006	2005	Amount	%
	(Unaudited)			
Prepaid	2,039,579	1,587,478	452,101	28
Smart	963,313	1,235,492	(272,179)	(22)
Piltel	1,076,266	351,986	724,280	206
Postpaid	16,956	(6,241)	23,197	372
Total	2,056,535	1,581,237	475,298	30

Revenues attributable to our cellular prepaid service amounted to Php33,693 million in the first half of 2006, a 5% increase over the Php32,224 million earned in the same period in 2005. Prepaid service revenues in the first half of 2006 and 2005 accounted for 93% and 94%, respectively, of voice and data revenues. Revenues attributable to Smart's postpaid service amounted to Php2,403 million in the first half of 2006, a 14% increase over the Php2,107 million earned in the same period in 2005 and accounted for 7% and 6% of voice and data revenues in the first half of 2006 and 2005, respectively.

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

	Six Months Ended June 30,							
	Gross		Increase (Decrease)		Net		Increase (Decrease)	
	2006	2005	Amount	%	2006	2005	Amount	%
	(Unaudited)							
Prepaid								
Smart	Php350	Php357	(Php7)	(2)	Php294	Php292	Php2	1
Piltel	239	266	(27)	(10)	204	216	(12)	(6)
Prepaid – Blended	321	335	(14)	(4)	271	274	(3)	(1)
Postpaid – Smart	1,893	1,831	62	3	1,400	1,308	92	7
Prepaid and Postpaid Blended	342	355	(13)	(4)	286	287	(1)	–

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

Prepaid service revenues consist mainly of charges for subscribers' actual usage of their loads. Gross monthly ARPU for Smart prepaid subscribers in the first half of 2006 was Php350, a decrease of 2%, compared to Php357 in the same period in 2005. The average outbound local and international voice revenue per subscriber declined in the first half of 2006 compared to the same period in 2005, but was offset by an increase in the average text messaging revenue and inbound international revenue per subscriber. On a net basis, ARPU in the first half of 2006 increased by 1% to Php294 from Php292 in the same period in 2005 due to lower domestic interconnection expense resulting from increased on-network voice and text usage. Gross monthly ARPU for *Talk*

'N Text subscribers in the first half of 2006 was Php239, a decrease of 10% compared to Php266 in the same period in 2005. The decline was attributable to the decrease in the average outbound local voice revenue per subscriber as well as the average inbound revenue per subscriber partly offset by an increase in the average text messaging revenue per subscriber. On a net basis, ARPU in the first half of 2006 decreased by 6% to Php204 from Php216 in the same period in 2005.

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

Gross monthly ARPU for postpaid subscribers increased by 3% to Php1,893 while net monthly ARPU increased by 7% to Php1,400 in the first half of 2006 as compared to Php1,831 and Php1,308 in the same period in 2005, respectively. Prepaid and postpaid monthly gross blended ARPU was Php342 in the first half of 2006, a decrease of 4% compared to Php355 in the same period in 2005. Monthly net blended ARPU remained stable at Php286 in the first half of 2006 compared to Php287 in the same period in 2005.

Our quarterly prepaid and postpaid ARPUs for the six months ended June 30, 2006 and 2005 were as follows:

	Prepaid				**Postpaid**	
	Smart		**Piltel**		**Smart**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
			(Unaudited)			
2006						
First Quarter	Php356	Php294	Php245	Php207	Php1,867	Php1,386
Second Quarter	344	294	234	202	1,920	1,414
2005						
First Quarter	Php356	Php289	Php269	Php220	Php1,767	Php1,257
Second Quarter	357	294	262	212	1,896	1,360
Third Quarter	343	285	234	194	1,889	1,389
Fourth Quarter	370	308	261	220	1,923	1,467

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

Prior to June 2004, a prepaid cellular subscriber was recognized as an active subscriber when that subscriber activated and used the SIM card in the handset, which contained pre-stored air time. The pre-stored air time, which can be used for both voice and text, was reduced from Php100 to Php50 in April 2004. In May 2005, this was changed to Php1 plus 50 free SMS which could only be used upon purchase or reload of air time of any value. Subscribers can reload their air time by purchasing prepaid "call and text" cards; by purchasing additional air time "over the air" via *Smart Load* or *Smart Load* "All Text"; and by receiving loads of Php2, Php5, Php10 and Php15 via *Pasa Load*, or through their handsets using *Smart Money*. Reloads have validity periods ranging from one day to two months, depending on the amount reloaded. A prepaid cellular subscriber is disconnected if the subscriber does not reload within four months after the full usage or expiry of the last reload. Our current policy is to recognize a prepaid subscriber as "active" only when the subscriber activates and uses the SIM card and reloads at least once during the month of initial activation or in the immediate succeeding month. For example, if a customer activated a SIM card in April but had not reloaded by May 31, this customer would not be counted as a subscriber. The rationale for this change stems from our observance of "SIM-swapping" activities in the market. "SIM-swapping" refers to the promotional activity wherein subscribers can exchange their current prepaid SIM card for another operator's SIM card at no cost to the subscriber. We believe that these activities have given rise to a situation where certain subscribers swap their SIM cards between mobile operators upon full usage of the pre-stored air time, which may result in our subscriber base reflecting a certain number of transient subscribers at any one point in time. In May 2005, we terminated our "SIM swapping" promotions; as a result, our churn rates increased in the third and fourth quarters of 2005 but tapered off beginning the first quarter of 2006.

For Smart prepaid, the average monthly churn rate for the first half of 2006 was 2.9% compared to 3.4% in the same period in 2005, while the average monthly churn rate for *Talk 'N Text* subscribers was 3.3% in the first half of 2006 compared to 4.6% in the same period in 2005.

The average monthly churn rate for Smart's postpaid subscribers for the first half of 2006 was 1.3% compared to 2.3% in the same period in 2005. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is disconnected. Within this 44-day period, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

Wireless Broadband, Satellite, VSAT and Other Services

Our revenues from wireless broadband, satellite, VSAT and other services consist mainly of wireless broadband service revenues for Smart Broadband, rentals received for the lease of Mabuhay Satellite's transponders and Telesat's VSAT facilities to other companies, charges for ACeS Philippines' satellite phone service and service revenues generated from a PLDT Global subsidiary's mobile virtual network operations. Smart Broadband offers a number of wireless broadband services with 57,826 subscribers as at June 30, 2006, including 54,165 *SmartBro* subscribers. *SmartBro*, the fixed wireless broadband service of Smart linked to Smart wireless broadband-enabled base stations, allows people to connect to the Internet using an outdoor aerial antenna installed in a subscriber's home.

Gross revenues from these services for the first half of 2006 amounted to Php1,515 million, an increase of Php265 million, or 21%, from Php1,250 million in the same period in 2005 principally due to the growth in our wireless broadband business.

Non-service Revenues

Our wireless non-service revenues consist of:

- proceeds from sales of cellular handsets; and
- proceeds from sales of cellular SIM-packs.

Our wireless non-service revenues decreased by Php103 million, or 8%, to Php1,188 million in the first half of 2006 as compared to Php1,291 million in the same period in 2005, primarily due to lower handset sales. In the first half of 2006, activations were driven more by SIM-pack sales.

Other Income

All other income/gains such as rental income and gains on short-term financial investments, which do not fall under service and non-service revenues, are included under this classification. Our wireless business segment generated other income of Php133 million in the first half of 2006, an increase of Php76 million, or 133%, as compared to Php57 million in the same period in 2005.

Expenses

Expenses associated with our wireless business in the first half of 2006 amounted to Php21,658 million, an increase of Php1,353 million, or 7%, from Php20,305 million in the same period in 2005. A significant portion of this increase was attributable to higher rent, financing costs and compensation and benefits partially offset by lower cost of sales and selling and promotions. As a percentage of our total wireless revenues and other income, expenses associated with our wireless business remained flat at 54% in the first half of 2006 and 2005.

Cellular business expenses accounted for 95% of our wireless business expenses, while wireless broadband, satellite, VSAT and other business expenses accounted for the remaining 5% of our wireless business expenses in the first half of 2006 as compared to 96% and 4%, respectively, in the same period in 2005.

The following table summarizes the breakdown of our wireless-related expenses for the six months ended June 30, 2006 and 2005 and the percentage of each expense item to the total:

	Six Months Ended June 30,					
					Increase (Decrease)	
	2006	%	2005	%	Amount	%
			(Unaudited)			
(in millions)						
Wireless services						
Depreciation and amortization	Php5,195	24	Php4,970	25	Php225	5
Rent	3,427	16	2,255	11	1,172	52
Cost of sales	2,383	11	3,271	16	(888)	(27)
Financing costs	2,264	10	1,279	6	985	77
Compensation and benefits(1)	2,202	10	1,890	9	312	17
Maintenance	1,795	8	1,617	8	178	11
Selling and promotions	1,329	6	1,702	8	(373)	(22)
Professional and other contracted services	864	4	701	4	163	23
Taxes and licenses	552	3	667	3	(115)	(17)
Communication, training and travel	446	2	491	2	(45)	(9)
Insurance and security services	422	2	492	3	(70)	(14)
Provisions	284	1	437	2	(153)	(35)
Amortization of intangible assets	137	1	139	1	(2)	(1)
Other expenses	358	2	394	2	(36)	(9)
Total	Php21,658	100	Php20,305	100	Php1,353	7

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

Depreciation and amortization charges increased by Php225 million, or 5%, to Php5,195 million in the first half of 2006 principally due to an increase in the depreciable asset base of the broadband business and additional depreciation provided for certain equipment amounting to Php352 million and Php240 million for the first half of 2006 and 2005, respectively. The useful lives of these certain equipment have been shortened due to network and equipment upgrade. For further details, see *Note 8 – Property, Plant and Equipment* to the accompanying unaudited consolidated financial statements.

Rent expenses increased by Php1,172 million, or 52%, to Php3,427 million on account of an increase in domestic fiber optic network, or DFON, facilities leased by Smart from PLDT and site rental expense. As at June 30, 2006, we had 4,357 GSM cell sites and 6,060 base stations, compared with 4,148 GSM cell sites and 5,573 base stations as at June 30, 2005.

Cost of sales decreased by Php888 million, or 27%, to Php2,383 million due to a decrease in volume of phone kits sold and the termination of SIM-swapping activities in May 2005. The breakdown of cost of sales for our wireless business for the six months ended June 30, 2006 and 2005 is as follows:

	Six Months Ended June 30,			
			Decrease	
	2006	**2005**	**Amount**	**%**
		(Unaudited)		
(in millions)				
Cost of cellular handsets and SIM-packs sold	Php2,284	Php3,149	(Php865)	(27)
Cost of satellite air time and terminal units	99	122	(23)	(19)
	Php2,383	Php3,271	(Php888)	(27)

Financing costs in the first half of 2006 amounted to Php2,264 million, an increase of Php985 million, or 77%, from Php1,279 million in the same period in 2005 due to the combined results of: (1) foreign exchange losses recognized in the first half of 2006 compared to foreign exchange gains recognized in the same period in 2005; and (2) higher amortization of discounts brought about by the prepayment of Piltel's debt in June 2006, partially offset by lower loss on derivatives recorded in the first half of 2006 as compared to the same period in 2005. The breakdown of our financing costs for our wireless business for the six months ended June 30, 2006 and 2005 is as follows:

	Six Months Ended June 30,			
			Change	
	2006	**2005**	**Amount**	**%**
		(Unaudited)		
(in millions)				
Accretion on financial liabilities – net	Php1,735	Php1,374	Php361	26
Interest on loans and related items	899	905	(6)	(1)
Foreign exchange losses (gains) – net	205	(778)	983	126
Dividends on preferred stock subject to mandatory redemption	93	132	(39)	(30)
Financing charges	31	48	(17)	(35)
Loss on derivative transactions – net	29	148	(119)	(80)
Capitalized interest	(143)	(7)	(136)	1,943
Interest income	(585)	(543)	42	8
	Php2,264	Php1,279	Php985	77

Compensation and benefits expenses increased by Php312 million, or 17%, to Php2,202 million primarily due to higher accrued bonuses and employee benefits and higher long-term incentive costs of Smart. Smart's employee headcount increased by 30, or 1%, to 5,135 in the first half of 2006 compared to 5,105 in the same period in 2005.

Maintenance expenses increased by Php178 million, or 11%, to Php1,795 million, mainly on account of higher expenses for electricity and power generation, higher repairs and maintenance costs for network facilities and information technology equipment.

Selling and promotion expenses decreased by Php373 million, or 22%, to Php1,329 million due to efficient media spending and termination of certain media contracts.

Professional and other contracted services increased by Php163 million, or 23%, to Php864 million primarily due to increased call center, legal, contracted service, market research and technical service fees.

Taxes and licenses decreased by Php115 million, or 17%, to Php552 million primarily due to a decrease in Smart's business-related taxes.

Communication, training and travel expenses decreased by Php45 million, or 9%, to Php446 million due to lower mailing and courier, training, communication and local travel expenses incurred in the first half of 2006.

Insurance and security services decreased by Php70 million, or 14%, to Php422 million primarily due to the decrease in site security expenses and lower amortization charges on prepaid insurance contracts.

Provisions decreased by Php153 million, or 35%, to Php284 million primarily due to a decrease in write-down of slow-moving handsets to net realizable values. The breakdown of provisions for the six months ended June 30, 2006 and 2005 is as follows:

	Six Months Ended June 30,			
			Decrease	
	2006	2005	Amount	%
	(Unaudited)			
(in millions)				
Doubtful accounts	Php98	Php112	(Php14)	(13)
Write-down of inventories to net realizable value	186	325	(139)	(43)
	Php284	Php437	(Php153)	(35)

Amortization of intangible assets decreased by Php2 million, or 1%, to Php137 million mainly due to a reduction in the amount of intangible assets booked by Smart from the purchase of Smart Broadband following the finalization by an independent appraiser of the valuation work on the intangible assets in December 2005.

Other expenses decreased by Php36 million, or 9%, to Php358 million due to lower various business and operational-related expenses such as office supplies expense.

Provision for Income Tax

Provision for income tax decreased by Php1,243 million, or 30%, to Php2,953 million in the first half of 2006 from Php4,196 million in the same period in 2005. In the first half of 2006, the effective tax rate for our wireless business was 16% compared to 24% in the same period in 2005 due to differences in the net movement of deferred tax assets.

Net Income

Our wireless business segment recorded a net income of Php15,301 million in the first half of 2006, an increase of Php1,971 million, or 15%, over Php13,330 million registered in the same period in 2005 primarily due to the growth in our cellular service revenues and lower provision for income tax, partly offset by an increase in operating expenses.

Fixed Line

Revenues and Other Income

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Total fixed line revenues generated from our fixed line business in the first half of 2006 totaled Php24,318 million, a decrease of Php18 million from Php24,336 million in the same period in 2005.

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

	Six Months Ended June 30,					
					Increase (Decrease)	
	2006	%	2005	%	Amount	%
			(Unaudited)			
(in millions)						
Fixed line services:						
Service Revenues						
Local exchange	Php8,587	35	Php9,247	38	(Php660)	(7)
International long distance	5,051	21	6,253	26	(1,202)	(19)
National long distance	3,504	14	3,519	14	(15)	–
Data and other network	6,242	26	4,589	19	1,653	36
Miscellaneous	669	3	627	3	42	7
	24,053	99	24,235	100	(182)	(1)
Non-Service Revenues	36	–	–	–	36	100
Other Income	229	1	101	–	128	127
Total Fixed Line Revenues and Other Income	Php24,318	100	Php24,336	100	(Php18)	–

Service Revenues

Local Exchange Service

Our local exchange service revenues consist of:

- flat monthly fees for our postpaid and fixed charges for our bundled services;
- installation charges and other one-time fees associated with the establishment of customer service;
- revenues from usage of prepaid cards for calls within the local area and any unused peso value of expired prepaid cards; and
- charges for special features, including bundled value-added services such as call waiting, call forwarding, multi-party conference calling, speed calling and caller ID.

The following table summarizes key measures of our local exchange service business as at and for the six months ended June 30, 2006 and 2005:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2006	2005	Amount	%
	(Unaudited)			
Total local exchange service revenues (in millions)	Php8,587	Php9,247	(Php660)	(7)
Number of fixed lines in service	2,070,721	2,137,813	(67,092)	(3)
Number of fixed line employees	9,149	9,582	(433)	(5)
Number of fixed lines in service per employee	226	223	3	1

Revenues from our local exchange service decreased by Php660 million, or 7%, to Php8,587 million in the first half of 2006 from Php9,247 million in the same period in 2005. The decrease was primarily due to a 3% decline in the number of fixed lines in service and the appreciation of the peso which required us to make downward adjustments in our monthly local service rates. The percentage contribution of local exchange revenues to our fixed line service revenues decreased to 35% in the first half of 2006 compared to 38% in the same period in 2005.

Fixed line net reduction in the first half of 2006 was 43,078 compared to a net reduction of 14,214 in the same period in 2005. In the first half of 2006, prepaid and postpaid fixed lines in service declined by 37,493 and 5,585, respectively. As at June 30, 2006, postpaid and prepaid fixed line subscribers totaled 1,785,312 and 285,409, which accounted for approximately 86% and 14%, respectively, of our total fixed lines in service.

Initially intended as an affordable alternative telephone service for consumers under difficult economic conditions, our prepaid fixed line services now form an important part of our overall churn and credit risk exposure management and subscriber retention strategy. Prepaid subscribers are charged based on usage at a rate of Php1.00 per minute for local calls, but the rates for prepaid and postpaid fixed line subscribers for national and international long distance calls are the same. A prepaid fixed line subscriber is recognized as an active subscriber when that subscriber activates and uses a prepaid call card. Prepaid fixed line subscribers can reload their accounts by purchasing call cards that are sold in denominations of Php500, Php300 and Php150. All sales of prepaid cards, whether through dealers or through PLDT's business offices, are non-refundable.

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

Pursuant to a currency exchange rate adjustment mechanism authorized by the Philippine National Telecommunications Commission, or the NTC, we adjust our postpaid monthly local service rates upward or downward by 1% for every Php0.10 change in the peso-to-dollar exchange rate relative to a base rate of Php11.00 to US$1.00. During the first half of 2006, we implemented four downward and two upward adjustments in our monthly local service rates, while there were four downward adjustments for the same period in 2005. The average Philippine peso to U.S. dollar rate factored in our monthly local service rates in the first half of 2006 was Php51.97 to US$1.00, compared to an average of Php54.94 to US$1.00 in the same period in 2005. This change in the average peso-to-dollar rate translated to a peso appreciation of 5%, which resulted in an average net decrease of approximately 5% in our monthly local service rates in the first half of 2006.

International Long Distance Service

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

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

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

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

The following table shows information about our international fixed line long distance business for the six months ended June 30, 2006 and 2005:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2006	2005	Amount	%
	(Unaudited)			
Total international long distance service revenues (in millions)	Php5,051	Php6,253	(Php1,202)	(19)
Inbound	4,265	5,289	(1,024)	(19)
Outbound	786	964	(178)	(18)
International call volumes (in million minutes, except call ratio)	1,031	1,156	(125)	(11)
Inbound	939	1,085	(146)	(13)
Outbound	92	71	21	30
Inbound-outbound call ratio	10.2:1	15.3:1	–	–

Our total international long distance service revenues decreased by Php1,202 million, or 19%, to Php5,051 million in the first half of 2006 from Php6,253 million in the same period in 2005 due to the peso appreciation, decrease in average termination rates for inbound calls and decline in call volumes largely as a result of alternative means of communications such as e-mailing, texting and Internet telephony. The percentage contribution of international long distance service revenues to our fixed line service revenues decreased to 21% in the first half of 2006 from 26% in the same period in 2005.

Our revenues from inbound international long distance service decreased by Php1,024 million, or 19%, to Php4,265 million due to a decrease in inbound traffic volume by 146 million minutes to 939 million minutes in the first half of 2006. In addition, the appreciation of the peso to the U.S. dollar with average rates of Php52.061 during the first half of 2006 and Php54.835 during the same period in 2005 contributed to the decrease in our inbound international long distance revenues in peso terms since settlement charges for inbound calls are billed in U.S. dollars or in special drawing rights, an established method of settlement among international telecommunications carriers using values based on a basket of foreign currencies that are translated into pesos at the time of billing.

Our revenues from outbound international long distance service decreased by Php178 million, or 18%, to Php786 million in the first half of 2006 primarily due to a decline in average revenue per minute as a result of lower average collection rate with the introduction of low-rate services such as *PLDT ID-DSL* and the modified *Budget Card*, and the peso appreciation in the first half of 2006.

On September 15, 2005, we introduced *PLDT ID-DSL*, a service that allows overseas calls for registered *myDSL* plan subscribers using a regular PLDT fixed line or a voice pad dialer for as low as US$0.10 per minute or US$0.08 per minute, respectively, depending on the subscribers' DSL plan/package.

To address the market's demand for low-priced international calls, PLDT modified the *Budget Card*, a prepaid call card, offering a reduced IDD rate of Php5 per minute, as a promotional offer starting September 24, 2005, for calls to 89 overseas destinations including the United States, Canada, Japan and China. Beginning March 4, 2006, *Budget Card* has been further modified to Php3, Php5 and Php8 per minute calls depending on the destination and now has 100 overseas destinations, including Saudi Arabia and other Middle East countries. *Budget Cards* are sold in denominations of Php200 and Php100, which must be consumed within 30 days from first use.

National Long Distance Service

Our national long distance service revenues consist of:

- per minute charges for calls made by our fixed line customers outside of the local service areas but within the Philippines, net of interconnection charges payable for calls carried through the backbone network of, and/or terminating to the customer of, another telecommunications carrier;
- access charges received from other telecommunications carriers for calls carried through our backbone network and/or terminating to our customers; and
- fixed charges paid by other telephone companies, charges retained by PLDT for calls terminating to cellular subscribers within the local area, and local access charges paid by cellular operators for calls by cellular subscribers that terminate to our local exchange network.

The following table shows our national long distance service revenues and call volumes for the six months ended June 30, 2006 and 2005:

	Six Months Ended June 30,			
			Decrease	
	2006	2005	Amount	%
		(Unaudited)		
Total national long distance service revenues (in millions)	Php3,504	Php3,519	(Php15)	–
National long distance call volumes (in million minutes)	1,122	1,235	(113)	(9)

Our national long distance service revenues decreased by Php15 million to Php3,504 million in the first half of 2006 from Php3,519 million in the same period in 2005 due to a decrease in call volumes partially offset by a higher average revenue per minute in 2006 due to the change in mechanics in our Php10 per call promotion. In 2005, the Php10 per call promotion was open to all PLDT Group fixed line subscribers nationwide; in 2006, the Php10 per call service was made available only to registered PLDT subscribers for a monthly service fee. Accordingly, the percentage contribution of national long distance revenues to our fixed line service revenues accounted for 14% in the first half of 2006 and 2005.

On February 14, 2005, we launched a Php10 per call promotion to PLDT landline subscribers nationwide and for calls to PLDT, Smart and *Talk 'N Text* subscribers. This promotion was launched with the objective of determining a more effective tariff structure that would stimulate landline usage. Under the promotion, NDD calls between any PLDT landline subscriber nationwide or to all Smart and *Talk 'N Text* subscribers were charged Php10 per call instead of being charged on a per minute basis.

On May 12, 2005, PLDT began offering the Php10 per call promotion with an additional Php5 per call for the same unlimited talktime to Smart and *Talk 'N Text* subscribers. PLDT to PLDT NDD calls below the equivalent Php10 toll usage were charged based on the regular rate per minute. On August 12, 2005, PLDT ceased offering the Php10 per call promotion to calls terminating to Smart and *Talk 'N Text* subscribers.

Beginning September 12, 2005, PLDT charged an optional Php20 add-on monthly service fee for PLDT landline subscribers who may want to continue to avail themselves of the Php10 per call promotion for calls within our network.

In January 2006, PLDT launched the *10-10-10* promotion. This promotion offers a flat rate of Php10 for unlimited calls terminating PLDT to PLDT and Smart and *Talk 'N Text* subscribers for a Php50 monthly service fee.

PLDT capped the Php10 per call service to Smart and *Talk 'N Text* subscribers to those who registered on or before February 24, 2006. PLDT fixed line subscribers, however, can still register and avail of the unlimited Php10 per call service for national long distance calls within the PLDT network.

Data and Other Network Services

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

The following table shows salient information about our data and other network service revenues for the six months ended June 30, 2006 and 2005:

	Six Months Ended June 30,			
			Increase	
	2006	**2005**	**Amount**	**%**
(in millions)		(Unaudited)		
Data and other network service revenues	Php6,242	Php4,589	Php1,653	36
Number of PLDT DSL broadband subscribers	109,245	63,902	45,343	71
Number of PLDT Vibe narrowband subscribers	425,761	364,123	61,638	17

Our data and other network services in the first half of 2006 posted revenues of Php6,242 million, an increase of Php1,653 million, or 36%, from Php4,589 million in the same period in 2005 primarily due to increases in leased lines, IP-based and switched-based data services, particularly

Diginet, *PLDT DSL* and *PLDT Vibe* services, respectively. The revenue contribution of this service segment to our fixed line service revenues increased to 26% in the first half of 2006 from 19% in the same period in 2005.

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

PLDT DSL, which contributed revenues of Php1,500 million during the first half of 2006 increased by Php449 million, or 43%, from Php1,051 million in the same period in 2005. *PLDT DSL* has reached 109,245 subscribers as at June 30, 2006 compared with 63,902 subscribers in the same period in 2005. PLDT offers a number of *DSL* packages with speeds and monthly fees varying from 256 kbps at Php999 per month to up to 1 Mbps at Php3,000 per month.

PLDT Vibe revenues increased by Php56 million, or 41%, to Php192 million in the first half of 2006 from Php136 million in the same period in 2005. As at June 30, 2006, the number of PLDT's fixed line subscribers for *PLDT Vibe* stood at 425,761, of which 152,149 were exclusive postpaid users, 246,963 were exclusive prepaid users, and 26,649 were both postpaid and prepaid users. As at June 30, 2005, *PLDT Vibe* subscribers totaled 364,123, of which 143,088 were exclusive postpaid users, 196,232 were exclusive prepaid users, and 24,803 were both postpaid and prepaid users.

The continued growth in data services revenues can be attributed to several product offerings. The steady demand for dedicated connectivity or private networking from the corporate market using PLDT's traditional bandwidth offerings – Fibernet, Arcstar, Acacia, I-Gate, Diginet, BRAINS, among others – continues to provide us with a stable revenue source. Through Diginet, we provide Smart's increasing fiber optic and leased line data requirements, which are included under our national data services. Diginet contributed Php2,826 million in our data revenues in the first half of 2006, increasing by Php1,074 million, or 61%, from Php1,752 million in the same period in 2005.

We introduced *PLDT WeRoam*, a wireless broadband service offering running on Smart's nationwide wireless network (using GPRS, EDGE and WiFi technologies) and PLDT's extensive IP infrastructure. Some of the recent enhancements to the service are the inclusion of international roaming in key roaming countries all over the globe and national WiFi roaming access. Principally targeted to the corporate market, the service had 6,622 subscribers as at June 30, 2006.

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

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising and facilities rental. In the first half of 2006, these revenues increased by Php42 million, or 7%, to Php669 million from Php627 million in the same period in 2005. The improvement was mainly due to an increase in co-location charges from more co-location sites coupled with an increase in rent income on duct utilization and cable restoration. The percentage contribution of miscellaneous service revenues to our fixed line service revenues was 3% in the first half of 2006 and 2005.

Non-service Revenues

Non-service revenues of Php36 million recognized under our fixed line business represent proceeds of computer sales in the first half of 2006 in relation to our DSL promo.

Other Income

All other income/gains such as rental income, gain on disposal of property, which do not fall under service and non-service revenues are included under this classification. In the first half of 2006, our fixed line business segment registered an increase in other income of Php128 million, or 127%, to Php229 million in the first half of 2006 from Php101 million in the same period in 2005 primarily due to higher rental income, income from disposal of materials, and higher service and facility fees.

Expenses

Expenses related to our fixed line business in the first half of 2006 totaled Php24,022 million, an increase of Php4,126 million, or 21%, compared to Php19,896 million in the same period in 2005. The increase was primarily due to higher depreciation and amortization, compensation and benefits, and financing costs partially offset by lower provisions and maintenance expenses.

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

	Six Months ended June 30,					
					Increase (Decrease)	
	2006	%	2005	%	Amount	%
	(Unaudited)					
(in millions)						
Fixed line services:						
Depreciation and amortization	Php10,038	42	Php5,704	29	Php4,334	76
Compensation and benefits[1]	4,560	19	3,977	20	583	15
Financing costs	3,876	16	3,537	18	339	10
Maintenance	1,611	7	1,718	8	(107)	(6)
Selling and promotions	975	4	866	4	109	13
Rent	827	3	860	4	(33)	(4)
Provisions	485	2	1,550	8	(1,065)	(69)
Professional and other contracted services	469	2	432	2	37	9
Taxes and licenses	343	2	330	2	13	4
Insurance and security services	265	1	329	2	(64)	(19)
Communication, training and travel	239	1	215	1	24	11
Cost of sales	77	–	–	–	77	100
Other expenses	257	1	378	2	(121)	(32)
Total	Php24,022	100	Php19,896	100	Php4,126	21

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

Depreciation and amortization charges increased by Php4,334 million, or 76%, to Php10,038 million mainly due to the effect of our change in estimated useful lives of certain property and equipment in line with our upgrade to the next-generation network which resulted in increased depreciation charges of Php3,882 million for the first half of 2006, and higher depreciation of our regular asset base from additional completed projects. Please see *Note 8 – Property, Plant and Equipment* to the accompanying unaudited consolidated financial statements for further discussion.

Compensation and benefits expenses increased by Php583 million, or 15%, to Php4,560 million primarily due to the effect of the collective bargaining agreement-related increases in salaries and benefits and an increase in incentive plan-related accruals partially offset by a reduction in headcount due to PLDT's MRP.

Financing costs increased by Php339 million, or 10%, to Php3,876 million due to lower derivatives and foreign exchange gains recorded in the first half of 2006 compared to the same period in 2005 and higher hedge costs partially offset by lower interest on loans and related items owing to lower debt balances in the first half of 2006 compared to the same period in 2005. The breakdown of financing costs for our fixed line business for the six months ended June 30, 2006 and 2005 is as follows:

	Six Months ended June 30,			
			Change	
	2006	2005	Amount	%
		(Unaudited)		
(in millions)				
Interest on loans and related items	Php3,449	Php4,737	(Php1,288)	(27)
Hedge costs	746	557	189	34
Accretion on financial liabilities – net	88	135	(47)	(35)
Financing charges	8	26	(18)	(69)
Gain on derivative transactions – net	(6)	(926)	920	(99)
Foreign exchange gains – net	(7)	(603)	596	(99)
Capitalized interest	(159)	(196)	37	(19)
Interest income	(243)	(193)	(50)	26
	Php3,876	Php3,537	Php339	10

Maintenance expenses decreased by Php107 million, or 6%, to Php1,611 million primarily due to lower maintenance costs for foreign cable and wire facilities as more operating and maintenance-related restorations were incurred in the first half of 2005 as compared to the same period in 2006.

Selling and promotion expenses increased by Php109 million, or 13%, to Php975 million primarily as a result of an increase in PLDT's promotional activities in relation to various products and services, such as PLDT's *Pwede!* campaign, partially offset by lower commissions paid in the first half of 2006.

Rent expenses decreased by Php33 million, or 4%, to Php827 million due to lower office and building rentals, and decrease in transponder lease charges partially offset by an increase in international leased circuits and rental charges occupied by various equipments.

Provisions decreased by Php1,065 million, or 69%, to Php485 million primarily on account of a lower provision by PLDT for anticipated uncollectible accounts from various specifically identified domestic telecommunications carriers which were provided for in 2005. The breakdown of provisions for our fixed line business for the six months ended June 30, 2006 and 2005 is as follows:

	Six Months Ended June 30,			
			Change	
	2006	2005	Amount	%
		(Unaudited)		
(in millions)				
Doubtful accounts	Php336	Php1,414	(Php1,078)	(76)
Onerous contracts and assessments	149	136	13	10
	Php485	Php1,550	(Php1,065)	(69)

Professional and other contracted services increased by Php37 million, or 9%, to Php469 million primarily due to an increase in facility management fees and collection agency fees, partially offset by lower advisory and legal fees in the first half of 2006 for various services.

Taxes and licenses increased by Php13 million, or 4%, to Php343 million mainly on account of higher NTC supervision and license fees, and other business-related taxes paid in the first half of 2006 as compared to the same period in 2005.

Insurance and security services decreased by Php64 million, or 19%, to Php265 million primarily due to lower premiums on property all-risk, industrial all-risk and industrial fire insurance, partially offset by higher security services due to a rate increase for contracted security guards.

Communication, training and travel expenses increased by Php24 million, or 11%, to Php239 million due to an increase in local and foreign travel and training in the first half of 2006 as compared to the same period in 2005.

Cost of sales of computers amounting to Php77 million were recognized in the first half of 2006 in relation to our DSL promo. No similar charges were incurred in the same period in 2005.

Other expenses decreased by Php121 million, or 32%, to Php257 million due to lower office supplies consumption and printing costs resulting from PLDT's continuing cost-containing activities.

Provision for Income Tax

Provision for income tax amounted to Php45 million in the first half of 2006 as compared to Php1,281 million in the same period in 2005, a decrease of Php1,236 million, or 96% primarily due to lower income subject to tax.

Net Income

In the first half of 2006, our fixed line business segment contributed a net income of Php251 million, a decrease of Php2,908 million, or 92%, as compared to Php3,159 million in the same period in 2005 mainly as a result of a 21% increase in fixed line-related expenses, particularly depreciation and amortization.

Information and Communications Technology

Revenues and Other Income

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

In the first half of 2006, our information and communications technology business generated revenues of Php2,011 million, an increase of Php424 million, or 27%, from Php1,587 million in the same period in 2005. Going forward, we expect revenues from our call center business to continue to contribute significantly to our information and communications technology revenues with the growing demand for our call center services.

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

	Six Months Ended June 30,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
			(Unaudited)			
(in millions)						
Service Revenues						
Call center	Php1,237	61	Php836	53	Php401	48
Internet and gaming	340	17	287	18	53	18
Vitro™ data center	175	9	173	11	2	1
Others	60	3	32	2	28	88
	1,812	90	1,328	84	484	36
Non-service Revenues						
Point Product Sales	172	9	215	13	(43)	(20)
Other Income	24	1	41	3	(17)	(41)
Equity share in net income of associates	3	–	3	–	–	–
Total ICT Revenues and Other Income	Php2,011	100	Php1,587	100	Php424	27

Service Revenues

Service revenues generated by our information and communications technology segment amounted to Php1,812 million in the first half of 2006, an increase of Php484 million, or 36%, as compared to Php1,328 million in the same period in 2005 primarily as a result of the continued growth of our call center business.

Call Center

We are focused on developing our call center business which capitalizes on the availability of English-speaking college graduates in the Philippines with a strong customer service orientation. ePLDT now uses one umbrella brand name, *ePLDT Ventus*, for all of its call center businesses, including Vocativ and Parlance. Vocativ provides customer and technical support to its clients in the Philippines, U.S. and U.K., while Parlance provides the exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the U.S. In aggregate, we own and operate approximately 4,660 seats with 3,500 customer service representatives, or CSRs, as at June 30, 2006 compared to approximately 3,180 seats with 2,550 CSRs as at June 30, 2005. In 2006, ePLDT launched two new sites bringing its total call center sites to seven as at June 30, 2006.

Call center revenues consist of:

- inbound calls for customer care, product inquiries, sales and technical support based on active minutes, billable hours and full-time equivalents;

- outbound calls for sales and collections based on active minutes, billable hours and full-time equivalents; and
- service income for e-mail handling, web chat, web co-browsing, data entry and business process outsourcing, or BPO, based on transaction volume.

Revenues related to our call center business in the first half of 2006 increased by Php401 million, or 48%, to Php1,237 million from Php836 million in the same period in 2005 primarily due to the combined effects of the following:

- Vocativ's upward price adjustment for calls and an increase in programs being handled;
- an upward price adjustment by Parlance for its inbound and outbound projects, coupled with an increase in the number of registered minutes for inbound projects and hours for outbound projects;
- expansion of existing Parlance and Vocativ facilities by 560 and 100 seats, respectively, from approximately 1,230 and 1,300 in the first half of 2005 to approximately 1,790 and 1,400 in the same period in 2006;
- commencement of Ventus operations in Iloilo in March 2005; and
- continuous ramp up of CSRs by 950, or 37%, from a total of approximately 2,550 in the first half of 2005 to approximately 3,500 in the same period in 2006.

Call center revenues accounted for 68% and 63% of total information and communications technology service revenues in the first half of 2006 and 2005, respectively.

Internet and gaming

ePLDT has also invested in a number of other e-commerce and Internet-related businesses, which include:

- a 99.6% interest in Infocom, an Internet service provider offering consumer prepaid and postpaid Internet access, corporate leased lines, dedicated dial-up, multi-user dial-up, broadband Internet access through DSL, web consulting and development, hosting and other value-added services;
- a 75% interest in Digital Paradise, an Internet café business with the brand *Netopia*;
- a 60% interest in netGames, a publisher for Massively Multi-player Online Game in the Philippines and the Philippine licensee of Khan Online, Pangya and Flyff, and the owner of Juanworld, a community gaming portal;
- a 60% interest in Level Up!, a leading publisher of online games in the Philippines with about 80% of the online gaming market. Level Up! was acquired on May 1, 2006;
- a 51% interest in Airborne Access, the country's leading operator of WiFi hotspots, which provides wireless Internet access in hotspots equipped with WiFi access points; and

- a 51% interest in Digital Paradise Thailand, an affiliate of Digital Paradise, offering similar products and services with four branches in Bangkok, Thailand.

Internet service revenues consist of:

- revenues derived from actual usage of the Internet access network by prepaid subscribers and any unused peso value of expired prepaid cards or electronic Internet time loads, net of discounts given to dealers;
- monthly service fees from postpaid corporate and consumer subscribers including: (1) charges for Internet usage in excess of allocated free plan Internet hours; (2) one-time installation and activation fees; and (3) fees for value added services including e-mail and web hosting services;
- one-time fees generated from resellership of Internet-related solutions such as security solutions and domain registration;
- franchise and royalty fees for *Netopia* Internet cafés, including a one-time subscription fee and monthly recurring franchise fees based on certain conditions on the franchise agreement;
- revenues from community access of computers and desktop publishing based on actual usage, net of discounts given to users; and
- online gaming revenues from unique subscribers, including one-time sale of gaming cards and electronic pins, and top-up fees upon actual consumption of gaming credits or after expiration of any unused peso value thereof.

Revenues from our Internet business in the first half of 2006 increased by Php53 million, or 18%, to Php340 million from Php287 million in the same period in 2005 primarily due to the consolidation of Airborne Access and Level Up! in October 2005 and May 2006, respectively, which resulted to additional revenues of Php6 million and Php39 million, respectively. Our Internet business revenues accounted for 19% and 22% of service revenues from information and communications technology business in the first half of 2006 and 2005, respectively.

Vitro™ data center

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

Vitro™ revenues consist of:

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

In the first half of 2006, *Vitro*™ contributed revenues of Php175 million, an increase of Php2 million, or 1%, from Php173 million in the same period in 2005 primarily due to an increase in co-location revenues and server hosting. *Vitro*™ revenues accounted for 10% and 13% of service revenues from our information and communications technology business in the first half of 2006 and 2005, respectively.

Others

Other revenues consist of:

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

Revenues from other businesses related to our information and communications technology segment in the first half of 2006 increased to Php60 million from Php32 million in the same period in 2005 largely due to IT helpdesk/contact center services rendered coupled with an increase in the number of digital certificates sold.

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

Non-service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In the first half of 2006, non-service revenues generated by our information and communications technology business decreased by Php43 million, or 20%, to Php172 million compared to Php215 million in the same period in 2005 primarily due to lower revenues from sales of networking equipment and software licenses.

Other Income

All other income/gains which do not fall under service and non-service revenues are included under this classification. Other income generated from our information and communications technology business segment decreased to Php24 million in the first half of 2006 from Php41 million in the same period in 2005 primarily due to Infocom's sale of its *NOW* cable Internet business in the first half of 2005; no similar transaction was incurred in the same period in 2006.

Equity Share in Net Income of Associates

Equity share in net income of associates amounted to Php3 million in the first half of 2006 and 2005 due to share in the earnings of its unconsolidated subsidiaries, ePDS, Inc. and Philweb Corporation, or Philweb. ePLDT acquired a 20% interest in Philweb in June 2006.

Expenses

Expenses associated with our information and communications technology business totaled Php1,936 million in the first half of 2006, an increase of Php418 million, or 28%, from Php1,518 million in the same period in 2005, primarily due to an increase in compensation and benefits, depreciation and amortization, and selling and promotions. As a percentage of our information and communications technology revenues, expenses related to our information and communications technology business were at 96% for the first half of 2006 and 2005.

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

	Six Months Ended June 30,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
			(Unaudited)			
(in millions)						
Information and communications technology services:						
Compensation and benefits[(1)]	Php855	44	Php625	41	Php230	37
Depreciation and amortization	252	13	187	12	65	35
Selling and promotions	234	12	205	14	29	14
Rent	228	12	208	14	20	10
Maintenance	139	7	149	10	(10)	(7)
Communication, training and travel	75	4	38	2	37	97
Professional and other contracted services	50	2	39	3	11	28
Taxes and licenses	19	1	18	1	1	6
Insurance and security services	10	1	5	–	5	100
Amortization of intangible assets	3	–	–	–	3	100
Provisions	1	–	–	–	1	100
Financing costs	(5)	–	8	1	(13)	(163)
Other expenses	75	4	36	2	39	108
Total	Php1,936	100	Php1,518	100	Php418	28

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

Compensation and benefits increased by Php230 million, or 37%, to Php855 million largely due to the expansion of our call center businesses and the consolidation of Level Up! and Airborne Access in the first half of 2006, which resulted to an increase in headcount thereby causing an increase in salaries, bonuses and various incentives of employees.

Depreciation and amortization charges increased by Php65 million, or 35%, to Php252 million primarily due to an increase in the depreciable asset base in relation to the expansion of our call center businesses.

Selling and promotion expenses increased by Php29 million, or 14%, to Php234 million mainly due to an increase in advertising and marketing spending and the consolidation of Level Up! and Airborne Access in the first half of 2006 as compared to the same period in 2005.

Rent expenses increased by Php20 million, or 10%, to Php228 million primarily due to the opening of two additional call center sites during the first half of 2006 which led to increased rental of leased circuits.

Maintenance expenses decreased by Php10 million, or 7%, to Php139 million primarily due to Vitro's lower hardware maintenance costs partially offset by higher hosting-related costs incurred in the first half of 2006 as compared to the same period in 2005.

Communication, training and travel expenses increased by Php37 million, or 97%, to Php75 million due to the increased cost of phone lines, bandwidth and information system charges, coupled by the increase in telecommunications costs incurred by our call center business for its outbound calls.

Professional and other contracted services increased by Php11 million, or 28%, to Php50 million primarily due to an increase in consultancy, legal and audit fees in the first half of 2006 as compared to the same period in 2005.

Taxes and licenses increased by Php1 million, or 6%, to Php19 million due to higher business-related taxes paid in the first half of 2006 as compared to the same period in 2005.

Insurance and security services increased by Php5 million, or 100%, to Php10 million primarily due to higher premium costs and an increase in the assets insured in the first half of 2006 as compared to the same period in 2005.

Amortization of intangible assets amounted to Php3 million in the first half of 2006 in connection with the acquisition of Level Up!. See *Note 11 – Goodwill and Intangible Assets* to the accompanying unaudited consolidated financial statements for further discussion. No similar charges were booked in the same period in 2005.

Provisions amounted to Php1 million in the first half of 2006 representing certain doubtful customer accounts. No similar provisions were recorded in the same period in 2005.

Financing costs amounted to a negative Php5 million in the first half of 2006 primarily due to a net interest income balance in 2006 brought about by a decrease in interest expense on loans on account of lower debt balances in the first half of 2006.

Other expenses increased by Php39 million, or 108%, to Php75 million mainly due to higher royalty fees on licenses paid by our Internet and gaming businesses, and increase in other business-related costs.

Provision for (Benefit from) Income Tax

Benefit from income tax amounted to Php12 million in the first half of 2006 primarily due to the recognition of deferred tax assets pertaining to accrued pension costs, net operating loss carry-over and allowance for doubtful accounts as compared to a provision for income tax of Php6 million in the same period in 2005.

Net Income

In the first half of 2006, our information and communications technology business segment registered a net income of Php87 million, an increase of Php24 million, or 38%, as compared to Php63 million in the same period in 2005 mainly as a result of a 27% increase in ICT-related revenues.

Liquidity and Capital Resources

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

	Six Months Ended June 30,	
	2006	2005
	(Unaudited)	
(in millions)		
Cash Flows		
Net cash provided by operating activities	Php33,601	Php35,151
Net cash used in investing activities	13,898	2,220
Capital expenditures	12,385	7,012
Net cash used in financing activities	23,943	24,528
Net increase (decrease) in cash and cash equivalents	(4,098)	8,308

	June 30,	December 31,
	2006	2005
	(Unaudited)	(Audited)
(in millions)		
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php72,410	Php84,860
Obligations under capital lease	269	381
Preferred stock subject to mandatory redemption	9,854	11,974
	82,533	97,215
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	18,281	18,684
Obligations under capital lease maturing within one year	828	717
	19,109	19,401
Total interest-bearing financial liabilities	101,642	116,616
Total equity	85,870	74,369
	Php187,512	Php190,985
Other Financial Data		
Total assets	Php244,771	Php249,713
Property, plant and equipment – net	173,832	176,974
Cash and cash equivalents	25,966	30,064

As at June 30, 2006, our consolidated cash and cash equivalents totaled Php25,966 million. Principal sources of consolidated cash and cash equivalents in the first half of 2006 were cash flows from operating activities amounting to Php33,601 million and drawings from Smart's debt facilities aggregating Php3,435 million. These funds were used principally for capital outlays of Php12,385 million, total debt principal payments of Php17,954 million and interest payments of Php3,977 million.

Operating Activities

Our consolidated net cash flows from operating activities in the first half of 2006 decreased by Php1,550 million, or 4%, to Php33,601 million, from Php35,151 million in the same period in 2005.

A significant portion of our cash flow is generated by our wireless business, which contributed revenues of approximately 60% and 59% of our service revenues in the first half of 2006 and 2005, respectively. Revenues from our fixed line and information and communications technology services accounted for 37% and 3%, respectively, of our service revenues in the first half of 2006 compared to 39% and 2%, respectively, in the same period in 2005.

Cash flows from operating activities of our wireless business amounted to Php17,226 million in the first half of 2006, a decrease of Php3,533 million, or 17%, compared to Php20,759 million in the same period in 2005 partially offset by an increase in our fixed line business which contributed Php14,699 million in the first half of 2006, an increase of Php540 million, or 4%, compared to Php14,159 million in the same period in 2005. The overall decrease in our cash flows from operating activities was due to an increase in working capital requirements with the settlement of various current liabilities complemented by higher billings of accounts receivable. Our wireless business segment accounted for 52% of our cash flows from operating activities while our fixed line segment accounted for 44% in the first half of 2006. We currently believe that our continuing strong cash flows from operating activities on a consolidated basis will allow us to defray our current liabilities despite our current ratio being less than 1:1 as at June 30, 2006.

While Smart is subject to loan covenants that restrict its ability to pay dividends, redeem preferred shares, make distributions to PLDT or otherwise provide funds to PLDT or any associate without the consent of its lenders, Smart had been able to obtain waivers from Finnvera and certain of its lenders for each of the dividend payments made by Smart to PLDT in 2006, 2005, 2004, 2003 and 2002 aggregating Php14,000 million, Php19,717 million, Php16,100 million, Php6,166 million and Php1,540 million, respectively. In September and December 2005, Smart redeemed 200 million and 180.8 million preferred shares, respectively, previously issued to PLDT at a redemption price of Php13.875 per share, or a total redemption price aggregating to Php5,283 million. During the first half of 2006, dividend payments received from Smart amounted to Php14,000 million, of which Php7,000 million was paid in March 2006 and another Php7,000 million was paid in June 2006.

Investing Activities

Net cash used in investing activities in the first half of 2006 amounted to Php13,898 million, an increase of Php11,678 million, or 526%, compared to Php2,220 million in the same period in 2005. This was primarily a result of an increase in capital expenditures by Php5,373 million, payments for purchase of investments in relation to the final settlement of Smart Broadband's acquisition, the purchase of a 60% investment in Level Up! and a 20% equity interest in Philweb of Php1,201 million, Php346 million and Php427 million, respectively, and the increase in short-term investments by Php4,271 million in the first half of 2006 as compared to the decrease in the first half of 2005 mainly due to maturity of Smart's prepaid forward exchange contracts in 2005.

Our consolidated capital expenditures in the first half of 2006 totaled Php12,385 million, an increase of Php5,373 million, or 77%, from Php7,012 million in the same period in 2005 primarily due to PLDT's, Smart's and ePLDT's higher capital spending. Smart's capital spending of Php6,025 million in the first half of 2006 was used to roll-out its 3G network and further expand and upgrade its transmission network facilities to increase capacity and coverage in respect of basic and advanced cellular services. PLDT's capital spending of Php5,765 million was principally used to finance the expansion of its fixed line data and IP-based network services. ePLDT and its subsidiaries' capital spending of Php520 million was primarily used to fund its call center expansion. The balance represented other subsidiaries' capital spending. Consolidated capital expenditures in the same period in 2005 amounted to Php7,012 million, of which Php3,569 million, Php3,118 million and Php305 million were attributable to Smart, PLDT and ePLDT, respectively. The balance represented other subsidiaries' capital spending.

Financing Activities

On a consolidated basis, we used net cash of Php23,943 million for financing activities, net of loan drawings by Smart, in the first half of 2006, a decrease of Php585 million, or 2%, compared to Php24,528 million in the same period in 2005. The net cash used in financing activities in the first half of 2006 was mainly attributable to debt repayments and interest payments by PLDT and Piltel in line with our ongoing debt reduction program and dividend payments distributed by PLDT to its common and preferred stockholders.

Debt Financing

Additions to our consolidated long-term debt in the first half of 2006 totaled Php3,446 million mainly from Smart's drawings related to the financing of its Phase 8 loan facilities. Payments in respect of principal and interest of our total debt amounted to Php17,954 million and Php3,977 million, respectively, in the first half of 2006, of which Php11,395 million and Php3,250 million were attributable to PLDT, respectively.

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

	June 30, 2006	December 31, 2005	Increase (Decrease) Amount	%
	(Unaudited)	(Audited)		
(in millions)				
U.S. Dollar Debt:				
Export Credit Agencies-Supported Loans	Php19,088	Php23,126	(Php4,038)	(17)
Fixed Rate Notes	44,838	52,354	(7,516)	(14)
Term Loans	16,971	14,288	2,683	19
Restructured Loans	2,720	4,767	(2,047)	(43)
Satellite Acquisition Loans	2,655	3,040	(385)	(13)
	86,272	97,575	(11,303)	(12)
Japanese Yen Debt:				
JBIC's Overseas Investment Loan	2,593	3,139	(546)	(17)
Export Credit Agency-Supported Loan	–	709	(709)	(100)
	2,593	3,848	(1,255)	(33)
Philippine Peso Debt:				
Peso Fixed Rate Corporate Notes	1,577	1,576	1	–
Term Loans	34	166	(132)	(80)
Restructured Loans	215	379	(164)	(43)
	1,826	2,121	(295)	(14)
	Php90,691	Php103,544	(Php12,853)	(12)

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

Our long-term debt decreased by Php12,853 million, or 12%, to Php90,691 million as at June 30, 2006 largely due to debt amortizations and prepayments in line with PLDT's efforts to reduce its overall debt level and also due to the appreciation of the peso. PLDT's debt was reduced by 15% to Php62,305 million by June 30, 2006. In addition, the debt levels of Smart decreased by

4%, to Php25,697 million (including Piltel's debt of Php2,984 million), while Mabuhay and ePLDT decreased by 13% and 79%, to Php2,655 million and Php34 million, respectively, as at June 30, 2006 due to amortizations and prepayments during 2006.

As at June 30, 2006, PLDT had no undrawn committed long-term credit facilities. On August 8, 2005, Smart signed a US$30 million commercial facility with Nordic Investment Bank to partly finance the related Phase 8 GSM equipment and services contracts. The facility was drawn in July 2006. On August 10, 2005, Smart signed a US$70 million loan facility with Finnish Export Credit Ltd. for its GSM Phase 8 financing. Smart opted to utilize only a total of US$66.79 million which was drawn on February 15, 2006 and March 13, 2006 for US$10.02 million and US$56.77 million, respectively. The balance of US$3.2 million was cancelled. After the first repayment on March 1, 2006, US$66 million remained outstanding as at June 30, 2006. Smart also had available facilities under its €50 million Framework Agreement with Bayerische Hypo-und Vereinsbank Aktiengesellschaft up to a maximum aggregate amount of €44 million. Please see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements for a detailed discussion of our long-term debt.

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

Year	US$ Loans(1)		JP¥ Loans(2)		Peso Loans	Total
			(in millions)			
2006(3)	US$79	Php4,211	JP¥1,394	Php648	Php793	Php5,652
2007	345	18,379	2,788	1,297	36	19,712
2008	124	6,602	1,394	648	24	7,274
2009	281	14,948	–	–	24	14,972
2010	63	3,337	–	–	834	4,171
2011 and onwards	872	46,416	–	–	170	46,586
	US$1,764	Php93,893	JP¥5,576	Php2,593	Php1,881	Php98,367

(1) The exchange rate used was Php53.220 to US$1.00.
(2) The exchange rate used was Php0.4650 to JP¥1.00.
(3) July 1, 2006 to December 31, 2006.

Approximately Php51,781 million principal amount of our consolidated outstanding long-term debt as at June 30, 2006 is scheduled to mature over the period from 2006 to 2010. Of this amount, Php33,669 million was attributable to PLDT, Php15,424 million to Smart (including Piltel's debt of Php1,378 million) and the remainder to Mabuhay Satellite, Maratel and ePLDT.

Debt Covenants

Our debt instruments contain restrictive covenants, including covenants that could prohibit us from paying dividends on common stock under certain circumstances, and require us to comply with specified financial ratios and other financial tests, calculated in conformity with accounting principles generally accepted in the Philippines, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments. In addition, we are required to comply with certain financial ratios for the incurrence of capital expenditures in excess of US$10 million and incurrence of indebtedness.

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

Financing Requirements

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

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

Credit Ratings

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

PLDT's current credit ratings are as follows:

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

On March 29, 2006, Moody's Investor Service, or Moody's, placed the Ba1 local currency corporate family rating of PLDT on review for possible upgrade. At the same time, Moody's affirmed PLDT's Ba2 foreign currency senior unsecured ratings, with a negative outlook.

On July 18, 2006, Moody's upgraded PLDT's local currency corporate family rating from Ba1 to Baa3 with a positive outlook. The upgrade has been prompted by continued improvements in PLDT's credit profile, that it enjoys a lowly geared balance sheet, 65% share in revenue terms of the market where only one major competitor is present and has flexibility significant enough to invest its free cash flows into upgrading its technology base.

On February 20, 2006, Fitch Ratings has revised its outlook on PLDT's long-term foreign currency from negative to stable. PLDT's long-term foreign currency, global bonds and senior notes has been affirmed at "BB" and convertible preferred stock at "B+." The revision in outlook reflects that of the outlook of the Republic of the Philippines as foreign currency and senior debt instrument ratings are constrained by the sovereign foreign currency rating. At the same time, PLDT's long-term local currency rating has been affirmed at "BB+" with a stable outlook.

On June 7, 2006, Fitch Ratings upgraded PLDT's long-term local currency Issuer Default Rating, or IDR, to "BBB-" from "BB+" with a positive outlook. At the same time, Fitch affirmed PLDT's long-term foreign currency IDR of "BB" with a stable outlook, reflecting the outlook on the Republic of the Philippines' long-term foreign currency IDR of "BB." Following the licensing of Fitch to provide National ratings in the Philippines, Fitch assigned PLDT a National long-term rating of "AAA(ph1)" with a stable outlook.

Equity Financing

PLDT raised Php43 million and Php131 million from the exercise by certain officers and executives of stock options in the first half of 2006 and 2005, respectively. In addition, through our subscriber investment plan, or SIP, which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% cumulative convertible preferred stock as part of the upfront payments collected from subscribers, PLDT was able to raise Php3 million and Php2 million in the first half of 2006 and 2005, respectively.

Cash dividend payments in the first half of 2006 amounted to Php5,334 million, of which Php5,099 million and Php235 million were paid to common and preferred shareholders, respectively, compared to Php2,963 million, of which Php2,372 million and Php591 million were paid to common and preferred shareholders, respectively, in the same period in 2005.

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

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

As at June 30, 2006, there were 182,820,644 PLDT common shares outstanding.

Contractual Obligations and Commercial Commitments

Contractual Obligations

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

	Payments Due by Period				
	Total	**Within 1 year**	**2–3 years**	**4–5 years**	**After 5 years**
			(Unaudited)		
(in millions)					
Long-term debt [1]	Php98,367	Php18,449	Php26,537	Php9,163	Php44,218
Long-term lease obligations:					
Operating lease	3,435	606	1,067	815	947
Capital lease	1,670	1,001	223	19	427
Unconditional purchase obligations[2]	10,815	4,961	2,129	2,129	1,596
Other long-term obligations	12,389	–	5,115	7,274	–
Total contractual obligations	Php126,676	Php25,017	Php35,071	Php19,400	Php47,188

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

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

Long-term Debt

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

Long-term Operating Lease Obligations

Digital Passage Service Contracts. PLDT has existing Digital Passage Service Contracts with foreign telecommunication administrations for several dedicated circuits to various destinations for ten to 25 years expiring at various dates. As at June 30, 2006, PLDT's aggregate remaining obligation under these contracts amounted to approximately Php12 million.

License Agreement with Mobius Management Systems (Australia) Pty Ltd., or Mobius. PLDT entered into a license agreement with Mobius pursuant to which Mobius has granted PLDT a non-exclusive, non-assignable and non-transferable license for the use of computer software components. Under this agreement, Mobius is also required to provide maintenance services for a period of one year at no additional maintenance charge. PLDT may purchase maintenance services upon expiration of the first year for a fee of 15% of the current published license fee. As at June 30, 2006, PLDT's aggregate remaining obligation under this agreement was approximately Php20 million.

Other Long-term Operating Lease Obligations. The PLDT Group has various long-term lease contracts for periods ranging from two to ten years covering certain offices, warehouses, cell sites, telecommunication equipment locations and various office equipment. In particular, Smart has lease obligations aggregating Php3,171 million as at June 30, 2006 in respect of office and cell site rentals with over 3,000 lessors nationwide, PLDT has lease obligations aggregating Php100 million as at June 30, 2006, and ePLDT has lease obligations aggregating Php132 million as at June 30, 2006 in respect of certain office space rentals.

Long-term Capital Lease Obligations

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

Unconditional Purchase Obligations

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

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

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

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

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

As at June 30, 2006, PLDT's aggregate remaining minimum obligation under the original Air Time Purchase Agreement was approximately Php10,815 million.

Other Long-term Obligations

Mandatory Conversion and Purchase of Shares. As discussed in *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements, as at June 30, 2006, PLDT had issued a total of 3 million shares of Series V Convertible Preferred

Stock, 5 million shares of Series VI Convertible Preferred Stock and 4 million shares of Series VII Convertible Preferred Stock in exchange for a total of 58 million shares of Series K Class I Convertible Preferred Stock of Piltel, pursuant to the debt restructuring plan of Piltel adopted in June 2001.

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

As at June 30, 2006, 2,668,962 shares of Series V Convertible Preferred Stock and 2,681,644 shares of Series VI Convertible Preferred Stock had been converted to PLDT common shares. As at June 30, 2006, 52,478 shares of Series V, 2,613,460 shares of Series VI and 3,842,000 shares of Series VII Convertible Preferred Stocks remained outstanding. The aggregate value of the put option based on outstanding shares as at June 30, 2006 was Php12,389 million, of which Php5,115 million is puttable on June 4, 2008 and Php7,274 million on June 4, 2009, if all of the outstanding shares of Series V, VI and VII Convertible Preferred Stocks were mandatorily converted and all the underlying shares of common stock were put to PLDT. The market value of the underlying shares of common stock was Php11,910 million, based on the market price of PLDT common shares of Php1,830 per share as at June 30, 2006.

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

Commercial Commitments

As at June 30, 2006, our outstanding commercial commitments, in the form of letters of credit, amounted to Php1,836 million. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

Liquidity Risk Management

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

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

Foreign Exchange Risk Management

As at June 30, 2006, the Philippine peso had depreciated by Php0.158 against the U.S. dollar to Php53.220 to US$1.00 from Php53.062 to US$1.00 as at December 31, 2005. As at June 30, 2005, on the other hand, the peso appreciated by Php0.164 to Php56.177 to US$1.00 from Php56.341 to US$1.00 as at December 31, 2004. As at June 30, 2006, the Philippine peso had depreciated by 3% against the Japanese yen to Php0.4650 to JP¥1 from Php0.4504 to JP¥1 as at December 31, 2005. On the other hand, as at June 30, 2005, the peso appreciated by 8% to Php0.5067 to JP¥1 from Php0.5495 to JP¥1 as at December 31, 2004. The revaluation of our foreign-currency denominated assets and liabilities is recognized as foreign exchange gains or losses as at balance sheet date. Since substantially all of our indebtedness is denominated in U.S. dollars and Japanese yen, the depreciation of the peso has resulted to the recognition of foreign exchange losses. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt we carry. As at June 30, 2006, consolidated foreign currency debt-denominated amounted to Php88,865 million, a reduction from Php101,423 million last December 31, 2005. As such, we recognized foreign exchange loss of Php195 million in the first half of 2006 as compared to foreign exchange gains of Php1,382 million recorded in the same period in 2005.

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

As at June 30, 2006, approximately 98% of our total consolidated debts were denominated in foreign currencies, principally in U.S. dollars. Of our foreign currency-denominated debts, 3% are in Japanese yen on a consolidated basis and the balance in U.S. dollars. Thus, a weakening of the Philippine peso against the U.S. dollar or Japanese yen will increase both the principal amount of our unhedged foreign currency-denominated debts (representing 50% of our consolidated debts, or 35% net of our U.S. dollar cash balances as at June 30, 2006), and interest expense on our debt in peso terms. In addition, many of our financial ratios and other financial tests will be negatively affected. If, among other things, the value of the Philippine peso against the U.S. dollar substantially drops from its current level, we may be unable to maintain compliance with these ratios, which could result in acceleration of some or all of our indebtedness. For further information on our loan covenants, see "Liquidity and Capital Resources – Financing Activities – Covenants" above and *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements.

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

Specifically, we use forward foreign exchange contracts, foreign currency swap contracts and currency option contracts to manage the foreign currency risk associated with our foreign currency-denominated loans. In order to manage hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of currency option contracts, and fixed to floating coupon only swap agreements. Accounted as either cash flow hedges or transactions not designated as hedges, changes in the fair value of these instruments are recognized as cumulative translation adjustments in equity until the hedged item is recognized in earnings or directly to income for the period. As at June 30, 2006, PLDT's outstanding forward foreign exchange contracts, principal-only long-term cross-currency swap contracts and currency option contracts amounted to US$158 million and JP¥1,516 million; US$550 million; and US$175 million, respectively. Smart has no outstanding forward foreign exchange contracts as at June 30, 2006.

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

Interest Rate Risk Management

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

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

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. In recent periods, we do not believe inflation has had a material impact on our operations. The average inflation rate in the Philippines in the first half of 2006 was 7.1%, compared to 8.3% in the same period in 2005.

OTHER INFORMATION

PLDT launched fiber optic link to Baguio City

On July 28, 2006, we launched the first DFON link connecting Baguio City to PLDT's nationwide fiber optic network. The fiber optic link has a capacity of 10 gigabit per second of transmission bandwidth equivalent to 120,960 simultaneous voice calls. It will support the city's growing demand for voice, data and video traffic and would further boost Baguio's tourism industry and ICT potential.

ePLDT's Acquisition of SPi Technologies

On July 11, 2006, ePLDT completed the acquisition of 100% of SPi and its direct and indirect Philippine and offshore subsidiaries for a total consideration of US$135.34 million from SPi's sole shareholder, SPi Tech L.P., or SPi Tech. The acquisition of SPi, combined with *ePLDT Ventus*, creates the largest full service business process outsourcing in the Philippines. As part of the transaction, ePLDT also acquired a US$7 million debt owed by SPi to SPi Tech at face value. In addition, ePLDT advanced US$16.43 million to SPi in order for SPi to fully pay its debt owed to DBS Bank Singapore. ePLDT intends to have this debt refinanced by SPi in due course.

Smart's 20% Acquisition of WolfPac

On May 8, 2006, Smart signed a share purchase agreement to acquire the remaining 20% equity interest in Wolfpac, a company engaged in the business of consumer mobile applications software development and content development. Smart acquired 80% equity interest in Wolfpac in October 2003. The remaining 20% equity interest in Wolfpac was paid in July 2006.

Related Party Transactions

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

In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to DoCoMo pursuant to the Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and DoCoMo, the FP Parties, NTT Communications and DoCoMo entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended and the Shareholders Agreement dated March 24, 2000, to DoCoMo, including:

- certain contractual veto rights over a number of major decisions or transactions; and
- rights relating to the representation on the board of directors of PLDT and Smart, respectively, and any committees thereof.

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

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

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

Other Agreements with NTT Communications and/or its Affiliates — agreements under which (1) NTT Communications provides advisory services for various business areas of PLDT; (2) NTT

World Engineering Marine Corporation provides maintenance services to PLDT's DFON; (3) PLDT is licensed to market managed data and other services using NTT Communications' Arcstar brand; and (4) PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunication services. Total fees under these agreements totaled Php100 million and Php114 million for the six months ended June 30, 2006 and 2005, respectively. PLDT's outstanding obligations under these agreements amounted to Php40 million and Php23 million as at June 30, 2006 and December 31, 2005, respectively.

Agreements between Smart and Asia Link B.V. — agreements under which Asia Link undertakes to provide technical support services and assistance in the operations and maintenance of Smart's cellular business. Total fees under these agreements totaled Php299 million and Php278 million for the six months ended June 30, 2006 and 2005, respectively. Outstanding obligations of Smart under the Technical Service Agreement amounted to Php30 million and Php194 million as at June 30, 2006 and December 31, 2005, respectively. Asia Link is a subsidiary of the First Pacific Group.

Agreements relating to insurance companies — Gotuaco del Rosario and Associates, or Gotuaco, acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. In addition, PLDT has an insurance policy with Malayan Insurance Co., Inc., or Malayan, wherein premiums are directly paid to Malayan. Total insurance expenses paid under these agreements amounted to Php189 million and Php268 million for the six months ended June 30, 2006 and 2005, respectively. Two directors of PLDT have a direct/indirect interest in or serve as a director/officer of Gotuaco and Malayan.

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

SIGNATURES

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

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

By: /s/ Ma. Lourdes C. Rausa-Chan

MA. LOURDES C. RAUSA-CHAN
Senior Vice President, Corporate Affairs and
Legal Services Head and Corporate Secretary

Date: August 8, 2006