SEC Number **PW-55**
File Number

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

June 30, 2007

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

August 7, 2007

Philippine Stock Exchange
4/F Philippine Stock Exchange Center
Exchange Road, Ortigas Center
Pasig City

Attention: Atty. Pete M. Malabanan
Head – Disclosure Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith a copy of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited financial statements of the Company for the six (6) months ended June 30, 2007.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

P	W	-	5	5

S.E.C. Registration No.

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

(Company's Full Name)

R	A	M	O	N		C	O	J	U	A	N	G	C	O		B	L	D	G	.			
M	A	K	A	T	I		A	V	E	.		M	A	K	A	T	I		C	I	T	Y	

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

ATTY. MA. LOURDES C. RAUSA-CHAN
Contact Person

816-8405
Company Telephone Number

1 2 Month | 3 1 Day
Fiscal Year

SEC FORM 17-Q
FORM TYPE

0 6 Month | Every 2nd Tuesday Day
Annual Meeting

C	F	D

Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

2,186,838
As of June 30, 2007
Total No. of Stockholders

Total Amount of Borrowings

N/A
Domestic

N/A
Foreground

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks: Please use black ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE (“SRC”) AND SRC 17 (2) (b) THEREUNDER

1. For the quarterly period ended June 30, 2007

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

4. Philippine Long Distance Telephone Company
   Exact name of registrant as specified in its charter

5. Republic of the Philippines
   Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

7. Ramon Cojuangco Building, Makati Avenue, Makati City — 0721
   Address of registrant’s principal office — Postal Code

8. (632) 816-8556
   Registrant’s telephone number, including area code

9. Not Applicable
   Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Capital Stock, Php5 par value	188,637,430 shares as of June 30, 2007

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

    Yes [X] No [ ]

12. Check whether the registrant

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

    Yes [X] No [ ]

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

    Yes [X] No [ ]

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PART I –– FINANCIAL INFORMATION

Item 1. Financial Statements

Our financial statements as at June 30, 2007 (unaudited) and December 31, 2006 (audited) and for the six months ended June 30, 2007 and 2006 (unaudited) and related notes (pages F-1 to F-95) are filed as part of this report on Form 17-Q.

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

In the following discussion and analysis of our financial condition and results of operations, unless the context indicates or otherwise requires, references to "we," "us," "our" or "PLDT Group" mean the Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to "PLDT" mean the Philippine Long Distance Telephone Company, not including its consolidated subsidiaries (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 Financial Reporting Standards, 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 Php46.246 to US$1.00, the volume weighted average exchange rate at June 30, 2007 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

	June 30, 2007	December 31, 2006	Increase (Decrease) Amount	%
(in millions, except for operational data, exchange rates and earnings per common share)	(Unaudited)	(Audited)		
Consolidated Balance Sheets				
Total assets	Php239,171	Php241,892	(Php2,721)	(1)
Property, plant and equipment	160,735	164,190	(3,455)	(2)
Cash and cash equivalents and short-term investments	29,971	25,197	4,774	19
Total equity	112,714	104,523	8,191	8
Notes payable and long-term debt	68,122	80,154	(12,032)	(15)
Net debt[1] to equity ratio	0.34x	0.53x	–	–

	Six Months Ended June 30, 2007	2006	Increase (Decrease) Amount	%
		(Unaudited)		
Consolidated Statements of Income				
Revenues and other income	Php68,791	Php62,442	Php6,349	10
Expenses	42,801	43,817	(1,016)	(2)
Income before income tax	25,990	18,625	7,365	40
Net income	17,275	15,639	1,636	10
Net income attributable to equity holders of PLDT	17,002	15,306	1,696	11
Net income margin	25%	25%	–	–
Earnings per common share – basic	88.95	83.02	5.93	7
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	Php37,976	Php33,595	Php4,381	13
Net cash used in investing activities	19,865	13,891	5,974	43
Capital expenditures	*9,966*	*12,430*	*(2,464)*	*(20)*
Net cash used in financing activities	21,951	23,943	(1,992)	(8)
Operational Data				
Number of cellular subscribers	27,106,108	22,465,156	4,640,952	21
Number of fixed line subscribers	1,819,943	1,747,048	72,895	4
Number of broadband subscribers	422,082	173,693	248,389	143
Fixed Line	*200,029*	*109,245*	*90,784*	*83*
Wireless	*222,053*	*64,448*	*157,605*	*245*
Number of employees	26,282	20,618	5,664	27
Fixed Line	*8,670*	*9,149*	*(479)*	*(5)*
Wireless	*5,231*	*5,189*	*42*	*1*
Information and Communications Technology	*12,381*	*6,280*	*6,101*	*97*

Exchange Rates	**Php per US$**
June 30, 2007	Php46.246
December 31, 2006	49.045
June 30, 2006	53.220
December 31, 2005	53.062

(1) Net debt is derived by deducting cash and cash equivalents and short-term investments from total debt (notes payable and 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, 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., PLDT Global Corporation, or PLDT Global, Piltel, Smart-NTT Multimedia, Inc., or SNMI and Bonifacio Communications Corporation, which together account for approximately 3% of our consolidated fixed line subscribers; 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,* include Ventus, Parlance Systems, Inc., or Parlance, and Vocativ Systems, Inc., or Vocativ; business process outsourcing, or BPO, provided by SPi Technologies, Inc. and its subsidiaries, or SPi Group (consolidated on July 11, 2006); Internet access and online 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, 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 Php68,791 million in the first half of 2007, an increase of Php6,349 million, or 10%, as compared to Php62,442 million in the same period in 2006, primarily due to an increase in our service revenues by Php6,382 million.

Expenses decreased by Php1,016 million, or 2%, to Php42,801 million in the first half of 2007 from Php43,817 million in the same period in 2006, largely resulting from decreases in financing costs, and depreciation and amortization, partly offset by higher compensation and benefits, professional and other contracted services, and cost of sales.

Net income attributable to equity holders of PLDT increased by Php1,696 million, or 11%, to Php17,002 million in the first half of 2007 from Php15,306 million in the same period in 2006. Consequently, basic earnings per common share increased to Php88.95 in the first half of 2007 from Php83.02 in the same period in 2006.

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, 2007 and 2006. 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, 2007 (Unaudited)					
Revenues and other income	Php44,205	Php24,067	Php4,981	(Php4,462)	Php68,791
Service	42,964	23,590	4,806	(4,338)	67,022
Non-service	1,142	89	162	(77)	1,316
Other income	99	388	13	(47)	453
Expenses	21,643	20,604	5,016	(4,462)	42,801
Income (loss) before income tax	22,562	3,463	(35)	–	25,990
Net income for the period	15,150	2,122	3	–	17,275
Net income attributable to equity holders of PLDT	14,857	2,120	25	–	17,002
For the six months ended June 30, 2006 (Unaudited)					
Revenues and other income	39,993	24,318	2,011	(3,880)	62,442
Service	38,591	24,053	1,812	(3,816)	60,640
Non-service	1,269	36	172	(13)	1,464
Equity share in net income of associates	–	–	3	–	3
Other income	133	229	24	(51)	335
Expenses	21,739	24,022	1,936	(3,880)	43,817
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

Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	Amount	%
Revenues and other income	Php4,212	11	(Php251)	(1)	Php2,970	148	(Php582)	Php6,349	10
Service	4,373	11	(463)	(2)	2,994	165	(522)	6,382	11
Non-service	(127)	(10)	53	147	(10)	(6)	(64)	(148)	(10)
Equity share in net income of associates	–	–	–	–	(3)	(100)	–	(3)	(100)
Other income	(34)	(26)	159	69	(11)	(46)	4	118	35
Expenses	(96)	–	(3,418)	(14)	3,080	159	(582)	(1,016)	(2)
Income before income tax	4,308	24	3,167	1,070	(110)	(147)	–	7,365	40
Net income for the period	(151)	(1)	1,871	745	(84)	(97)	–	1,636	10
Net income attributable to equity holders of PLDT	(70)	–	1,869	745	(103)	(80)	–	1,696	11

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, 2007 and 2006 by service segment:

	Six Months Ended June 30,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
(in millions)			(Unaudited)			
Wireless services:						
Service Revenues						
Cellular	Php41,082	93	Php37,076	93	Php4,006	11
Wireless broadband, satellite, VSAT and others	1,882	4	1,515	4	367	24
	42,964	97	38,591	97	4,373	11
Non-service Revenues						
Sale of cellular handsets and SIM-packs	1,142	3	1,269	3	(127)	(10)
Other Income	99	–	133	–	(34)	(26)
Total Wireless Revenues and Other Income	Php44,205	100	Php39,993	100	Php4,212	11

Service Revenues

Our wireless service revenues increased by Php4,373 million, or 11%, to Php42,964 million in the first half of 2007 compared with Php38,591 million in the same period in 2006, mainly as a result of the growth in the cellular and wireless broadband subscriber base, an increase in inbound international traffic and inbound roaming revenues, partially offset by an increase in interconnection costs and the unfavorable effect of the appreciation of the Philippine peso on dollar-linked revenues. As a percentage of our total wireless revenues and other income, service revenues contributed 97% and 96% in the first half of 2007 and 2006, respectively.

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 2007 amounted to Php41,082 million, an increase of Php4,006 million, or 11%, from Php37,076 million in the same period in 2006. Cellular service revenues accounted for 96% of our wireless service revenues in the first half of 2007 and 2006.

Smart markets nationwide cellular communications services under the brand names *Smart Buddy, Smart Gold, addict mobile, Smart Infinity* and *Smart Kid prepaid. Smart Buddy* 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.

In 2006, Smart focused on segmenting its market by offering sector-specific, value-driven packages such as *All Text* – a new variety of top-up service providing a fixed number of messages with prescribed validity periods. Offerings include *All Text 10 Bonus*, with a suggested retail price of Php12, which includes 10 messages to all networks plus five bonus on-network messages without expiration and *All Text 20*, which includes 100 on-network messages for Php20, with a validity period of one day. Effective March 24, 2007, *All Text 20* was replaced with *All Text Plus*, which offers 90 on-network messages plus 10 messages to all networks for Php20, with one day validity period and is in effect until October 25, 2007. *All Text* also has a voice counterpart in *All Talk 20* which is a call package allowing three calls of up to three minutes each for local on-network calls for Php20, valid for one day. Other voice offerings include: (a) the *Flat Rate Plus Call* promotion, which allows a subscriber to make: (1) an on-network call of up to three minutes for Php10 or extend the call to five minutes for Php15; or (2) an off-network call of up to two minutes for Php10 or extend the call up to three minutes for Php15, which replaced the *Flat Rate Call* service effective March 29, 2007; and (b) *Tipid Talk*, a call package which allows a subscriber to make four calls of up to 30 seconds each for local on-network calls, valid for one day for Php10 and another variant allowing four calls of up to 15 seconds each for local on-network calls, valid for one day for Php5.50. *All Text 10 Bonus, All Talk 20, Tipid Talk* and *Flat Rate Plus Call* are now permanent offerings. Smart also continues to offer *Smart 258*, a registration-based service which offers unlimited on-network text messaging in load denominations of Php15, Php30 and Php60 with corresponding expiration periods of 1, 2 and 4 days, respectively.

On January 18, 2007, Smart introduced *LAHATxt*, a top-up service which offers a bundle of text messages available to all networks. *LAHATxt 35* is available to all Smart prepaid subscribers and provides for 100 text messages to all networks for Php35 with a one day validity period. On the other hand, *Talk 'N Text* subscribers have *LAHATxt 20* which allows a subscriber to make 50 text messages to all networks for Php20, also valid for one day. A variant of the *All Text* promotion, *Gaantxt Plus* is specifically targeted at *Talk 'N Text* subscribers. For a load of Php10, the promotion gives 40 *Talk 'N Text* to *Talk 'N Text* messages plus five messages to all networks valid for one day. The *Gaantxt* Plus promotion is valid until October 31, 2007.

Smart likewise has in place various promotions to stimulate international usage. In June 2006, *Smart IDD Libre Text Abroad* was launched wherein subscribers earned one free international text for every minute of IDD calling. In October 2006, this was replaced by *International Budget Text* packages. These packages, which have a limited duration and a varying number of allowable messages, enable subscribers to send international text to pre-registered recipients of the subscriber's choice on supported overseas carriers.

Smart expanded its roster of services with the commercial launch of its 3G services in May 2006. These services include video calling, video streaming, high-speed Internet browsing and downloading of special 3G content, offered at rates similar to those of 2G services.

In February 2007, at the 3GSM Congress in Barcelona, Spain, Smart introduced the *Smart Remit*, a project which offers low-cost remittance services using its mobile phone-based financial services platform. This will enable migrant workers in the Middle Eastern and European countries to send remittances to the Philippines via SIM-based services using the services of Smart and its banking partners abroad.

The following table summarizes key measures of our cellular business as at and for the six months ended June 30, 2007 and 2006:

	Six Months Ended June 30,			
			Increase	
	2007	2006	Amount	%
(in millions)		(Unaudited)		
Cellular service revenues	Php41,082	Php37,076	Php4,006	11
By component	*40,026*	*36,096*	*3,930*	*11*
Voice	18,550	17,343	1,207	7
Data	21,476	18,753	2,723	15
By service type	*40,026*	*36,096*	*3,930*	*11*
Prepaid	37,088	33,693	3,395	10
Postpaid	2,938	2,403	535	22
Others(1)	*1,056*	*980*	*76*	*8*

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

	June 30,			
			Increase	
	2007	2006	Amount	%
		(Unaudited)		
Cellular subscriber base	27,106,108	22,465,156	4,640,952	21
Prepaid	26,773,221	22,168,122	4,605,099	21
Smart	18,813,401	16,107,431	2,705,970	17
Piltel	7,959,820	6,060,691	1,899,129	31
Postpaid	332,887	297,034	35,853	12

	Six Months Ended June 30,			
			Increase (Decrease)	
	2007	2006	Amount	%
		(Unaudited)		
Systemwide traffic volumes (in millions)				
Calls (in minutes)	3,104	2,832	272	10
Domestic – outbound	1,869	1,769	100	6
International	1,235	1,063	172	16
Inbound	1,138	982	156	16
Outbound	97	81	16	20
SMS count	109,334	109,859	(525)	–
Text messages	108,269	108,637	(368)	–
Standard	13,354	16,679	(3,325)	(20)
Bucket-Priced	94,789	91,851	2,938	3
International	126	107	19	18
Value-Added Services	1,042	1,206	(164)	(14)
Financial Services	23	16	7	44

As at June 30, 2007, Smart and Piltel cellular subscribers totaled 27,106,108, an increase of 4,640,952, or 21%, over their combined cellular subscriber base of 22,465,156 as at June 30, 2006. Prepaid subscribers accounted for 99% of our total subscriber base as at June 30, 2007 and 2006. Prepaid and postpaid subscribers totaled 26,773,221 and 332,887 as at June 30, 2007, reflecting net subscriber activations of 2,916,400 and 14,324, respectively, in the first half of 2007.

Revenues attributable to our cellular prepaid service amounted to Php37,088 million in the first half of 2007, a 10% increase over the Php33,693 million earned in the same period in 2006. Prepaid service revenues in the first half of 2007 and 2006 accounted for 93% of voice and data revenues. Revenues attributable to Smart's postpaid service amounted to Php2,938 million in the first half of 2007, a 22% increase over the Php2,403 million earned in the same period in 2006, and accounted for 7% of voice and data revenues in 2007 and 2006.

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 Php1,207 million, or 7%, to Php18,550 million in the first half of 2007 from Php17,343 million in the same period in 2006 primarily due to an increase in domestic voice, international long distance and voice roaming revenues and international inbound revenues. The increase in domestic and international outbound and inbound revenues may be attributed to increased traffic mainly on account of subscriber growth.

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

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as value-added services, increased by Php2,723 million, or 15%, to Php21,476 million in the first half of 2007 from Php18,753 million in the same period in 2006. Cellular data services accounted for 52% of cellular service revenues in the first half of 2007 as compared to 51% in the same period in 2006.

The following table shows the breakdown of cellular data revenues for the six months ended June 30, 2007 and 2006:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2007	2006	Amount	%
(in millions)		(Unaudited)		
Text messaging				
Domestic	Php19,086	Php15,860	Php3,226	20
Standard	10,203	10,551	(348)	(3)
Bucket-Priced	8,883	5,309	3,574	67
International	846	965	(119)	(12)
	19,932	16,825	3,107	18
Value-added services				
Standard(1)	1,011	1,320	(309)	(23)
Rich Media(2)	156	199	(43)	(22)
Pasa Load	335	375	(40)	(11)
	1,502	1,894	(392)	(21)
Financial services				
Smart Money	40	31	9	29
Mobile Banking	2	3	(1)	(33)
	42	34	8	24
Total	Php21,476	Php18,753	Php2,723	15

(1) *Includes standard services such as info-on-demand, ringtone/logo downloads, etc.*
(2) *Includes MMS, WAP, GPRS, etc.*

Text messaging-related services contributed revenues of Php19,932 million in the first half of 2007, an increase of Php3,107 million, or 18%, compared to Php16,825 million in the same period in 2006, and accounted for 93% and 90% of the total cellular data revenues in the first half of 2007 and 2006, respectively. The increase in revenues from text messaging-related services resulted mainly from Smart's various bucket-priced text promotional offerings. Text messaging revenues from the various bucket plans totaled Php8,883 million.

Standard text messages totaled 13,354 million in the first half of 2007, a decrease of 3,325 million, or 20%, from 16,679 million in the same period in 2006 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in the first half of 2007 totaled 94,789 million, an increase of 2,938 million, or 3%, as compared to 91,851 million in the same period in 2006.

Value-added services, which contributed revenues of Php1,502 million in the first half of 2007, decreased by Php392 million, or 21%, from Php1,894 million in the same period of 2006, primarily due to lower usage of standard services, partially offset by higher usage of financial services in the first half of 2007 as compared to the same period in 2006.

Subscriber Base, ARPU and Churn Rates

Prepaid subscribers accounted for approximately 99% of our 27,106,108 subscribers as at June 30, 2007, while postpaid subscribers accounted for the remaining 1%. The cellular prepaid subscriber base grew by 21% to 26,773,221 as at June 30, 2007 from 22,168,122 as at June 30, 2006, whereas the postpaid subscriber base increased by 12% to 332,887 as at June 30, 2007 from 297,034 as at June 30, 2006.

Our net subscriber activations for the six months ended June 30, 2007 and 2006 were as follows:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2007	2006	Amount	%
	(Unaudited)			
Prepaid	2,916,400	2,039,579	876,821	43
Smart	1,930,959	963,313	967,646	100
Piltel	985,441	1,076,266	(90,825)	(8)
Postpaid	14,324	16,956	(2,632)	(16)
Total	2,930,724	2,056,535	874,189	43

The following table summarizes our cellular ARPUs for the six months ended June 30, 2007 and 2006:

	Six Months Ended June 30,							
	Gross		Increase (Decrease)		Net		Increase (Decrease)	
	2007	2006	Amount	%	2007	2006	Amount	%
	(Unaudited)							
Prepaid								
Smart	Php324	Php350	(Php26)	(7)	Php266	Php294	(Php28)	(10)
Piltel	230	239	(9)	(4)	193	204	(11)	(5)
Prepaid – Blended	296	321	(25)	(8)	245	271	(26)	(10)
Postpaid – Smart	2,093	1,893	200	11	1,504	1,400	104	7
Prepaid and Postpaid Blended	319	342	(23)	(7)	261	286	(25)	(9)

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. Prepaid blended ARPU in the first half of 2007 was Php296, a decrease of 8%, compared to Php321 in the same period in 2006. The average outbound domestic and international voice as well as the average value-added services and inbound revenue per subscriber declined in the first half of 2007 compared to the same period in 2006, but were partly offset by an increase in the average text messaging revenue per subscriber. On a net basis, prepaid blended ARPU in the first half of 2007 was Php245, a decrease of 10%, compared to Php271 in the same period in 2006.

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 11% to Php2,093 while net monthly ARPU increased by 7% to Php1,504 in the first half of 2007 as compared to Php1,893 and Php1,400 in the same period in 2006, respectively. Prepaid and postpaid monthly gross blended ARPU was Php319 in the first half of 2007, a decrease of 7%, compared to Php342 in the same period in 2006. Monthly net blended ARPU decreased by 9% to Php261 in the first half of 2007 as compared to Php286 in the same period in 2006.

Our quarterly prepaid and postpaid ARPUs for the six months ended June 30, 2007 and 2006 were as follows:

	Prepaid				**Postpaid**	
	Smart		**Piltel**		**Smart**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
			(Unaudited)			
2007						
First Quarter	Php323	Php267	Php228	Php187	Php2,045	Php1,483
Second Quarter	324	265	233	198	2,141	1,526
2006						
First Quarter	Php356	Php294	Php245	Php207	Php1,867	Php1,386
Second Quarter	344	294	234	202	1,920	1,414
Third Quarter	323	280	213	184	1,891	1,403
Fourth Quarter	332	286	213	184	1,939	1,425

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

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

For Smart prepaid, the average monthly churn rate for the first half of 2007 and 2006 were 2.9%, while the average monthly churn rate for *Talk 'N Text* subscribers was 3.4% in the first half of 2007 compared to 3.3% in the same period in 2006.

The average monthly churn rate for Smart's postpaid subscribers for the first half of 2007 was 1.1% compared to 1.3% in the same period in 2006. 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 PLDT Global's subsidiaries. Gross revenues from these services for the first half of 2007 amounted to Php1,882 million, an increase of Php367 million, or 24%, from Php1,515 million in the same period in 2006 principally due to the growth in our wireless broadband business partially offset by lower satellite transponder rental revenues.

Smart Broadband offers a number of wireless broadband services and had 210,069 subscribers as at June 30, 2007. *SmartBro*, the fixed wireless broadband service of Smart linked to Smart's wireless broadband-enabled base stations, allows people to connect to the Internet using an outdoor aerial antenna installed in a subscriber's home. Wireless broadband revenues contributed Php930 million in the first half of 2007, increasing by Php631 million, or 211%, from Php299 million in the same period in 2006.

We also offer *PLDT WeRoam*, a wireless broadband service, 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 world and national WiFi roaming access. Principally targeted to the corporate market, the service had 11,984 subscribers as at June 30, 2007 compared to 6,622 subscribers as at June 30, 2006 and contributed Php61 million to our data revenues, increasing by 49% from Php41 million in the same period in 2006.

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 Php127 million, or 10%, to Php1,142 million in the first half of 2007 as compared to Php1,269 million in the same period in 2006 primarily due to a lower volume of postpaid handsets sold and a lower average revenue per handset and SIM-pack, partly offset by a higher volume of prepaid handsets and SIM-packs sold in the first half of 2007.

Other Income

All other income/gains such as rental income and which do not fall under service and non-service revenues are included under this classification. Our wireless business segment generated other income of Php99 million in the first half of 2007, a decrease of Php34 million, or 26%, as compared to Php133 million in the same period in 2006.

Expenses

Expenses associated with our wireless business in the first half of 2007 amounted to Php21,643 million, a decrease of Php96 million from Php21,739 million in the same period in 2006. A significant portion of this decrease was attributable to net financing gains which was partially offset by higher depreciation and amortization, rent, and selling and promotions expenses. As a percentage of our total wireless revenues and other income, expenses associated with our wireless business accounted for 49% and 54% in the first half of 2007 and 2006, respectively.

Cellular business expenses accounted for 93% of our wireless business expenses, while wireless broadband, satellite, VSAT and other business expenses accounted for the remaining 7% of our wireless business expenses in the first half of 2007 as compared to 89% and 11%, respectively, in the same period in 2006.

The following table summarizes the breakdown of our wireless-related expenses for the six months ended June 30, 2007 and 2006 and the percentage of each expense item to the total:

	Six Months Ended June 30,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
Wireless services						
Depreciation and amortization	Php5,893	27	Php5,195	24	Php698	13
Rent	4,091	19	3,427	16	664	19
Compensation and benefits[1]	2,456	11	2,202	10	254	12
Cost of sales	2,409	11	2,383	11	26	1
Selling and promotions	1,795	8	1,410	6	385	27
Maintenance	1,778	8	1,795	8	(17)	(1)
Professional and other contracted services	1,083	5	864	4	219	25
Taxes and licenses	674	3	552	3	122	22
Communication, training and travel	526	3	446	2	80	18
Insurance and security services	380	2	422	2	(42)	(10)
Provisions	198	1	284	1	(86)	(30)
Amortization of intangible assets	85	–	137	1	(52)	(38)
Financing costs (gains)	(274)	(1)	2,264	10	(2,538)	(112)
Other expenses	549	3	358	2	191	53
Total	Php21,643	100	Php21,739	100	(Php96)	–

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

Depreciation and amortization charges increased by Php698 million, or 13%, to Php5,893 million in the first half of 2007, principally due to an increase in our depreciable asset base mainly transmission facilities, 3G and broadband networks, and broadband customer-deployed equipment.

Rent expenses increased by Php664 million, or 19%, to Php4,091 million on account of an increase in domestic fiber optic network, or DFON, facilities and transmission circuits leased by Smart from PLDT, as well as higher satellite transmission and site rental expenses. As at June 30, 2007, we had 4,731 GSM cell sites and 7,342 base stations, compared with 4,357 GSM cell sites and 6,060 base stations as at June 30, 2006.

Compensation and benefits expenses increased by Php254 million, or 12%, to Php2,456 million, primarily due to employees' basic pay increase, higher accrued bonuses and other employee benefits of Smart, partly offset by lower accrued pension, long-term incentive plan and MRP costs. Smart and subsidiaries' employee headcount increased by 43, or 1%, to 5,178 in the first half of 2007 as compared to 5,135 in the same period in 2006. For further discussion on our long-term incentive plan, please see *Note 21 –Employee Benefits* to the accompanying unaudited consolidated financial statements.

Cost of sales increased by Php26 million, or 1%, to Php2,409 million due to an increase in the volume of phone kits and SIM-packs issued for activation and retention purposes in the first half of 2007, partially offset by a lower average cost of handsets and SIMs. The breakdown of cost of sales for our wireless business for the six months ended June 30, 2007 and 2006 is as follows:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2007	2006	Amount	%
		(Unaudited)		
(in millions)				
Cost of cellular handsets and SIM-packs sold	Php2,323	Php2,284	Php39	2
Cost of satellite air time and terminal units	86	99	(13)	(13)
	Php2,409	Php2,383	Php26	1

Selling and promotions increased by Php385 million, or 27%, to Php1,795 million due to higher advertising, promotion and commission expenses, partly offset by a decrease in printing cost of prepaid cards with the prevalence of e-loading.

Maintenance expenses decreased by Php17 million, or 1%, to Php1,778 million mainly due to lower repairs and maintenance costs for network facilities and IT software, and a decrease in fuel costs for power generation, partly offset by higher expenses for electricity consumption for cell sites and offices.

Professional and other contracted services increased by Php219 million, or 25%, to Php1,083 million, primarily due to increased contracted service, consultancy and technical service, market research and advisory fees.

Taxes and licenses increased by Php122 million, or 22%, to Php674 million, primarily due to an increase in royalty and franchise fees, and higher non-creditable input tax, partly offset by lower business-related taxes and licenses.

Communication, training and travel expenses increased by Php80 million, or 18%, to Php526 million mainly due to higher mailing and courier charges, and local travel expenses incurred in the first half of 2007.

Insurance and security services decreased by Php42 million, or 10%, to Php380 million, primarily due to the decrease in site security expenses and lower charges on insurance contracts.

Provisions decreased by Php86 million, or 30%, to Php198 million primarily due to a lower level of write-down of slow-moving handsets to net realizable values. The breakdown of provisions for the six months ended June 30, 2007 and 2006 is as follows:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
		(Unaudited)		
(in millions)				
Doubtful accounts	Php136	Php98	Php38	39
Write-down of inventories to net realizable values	62	186	(124)	(67)
	Php198	Php284	Php(86)	(30)

Amortization of intangible assets decreased by Php52 million, or 38%, to Php85 million mainly due to intangible assets relating to technology application arising from the acquisition of Wolfpac which was fully amortized by end 2006.

We recognized net financing gains of Php274 million in the first half of 2007 as compared to a net financing cost of Php2,264 million in the same period in 2006 due to the appreciation of the Philippine peso to the U.S. dollar in 2007, complemented by lower accretion on financial liabilities due to the settlement of Piltel's debt partly offset by lower interest income and capitalized interest. The breakdown of our financing costs (gains) for our wireless business for the six months ended June 30, 2007 and 2006 is as follows:

	Six Months Ended June 30,			
			Change	
	2007	2006	Amount	%
		(Unaudited)		
(in millions)				
Interest on loans and related items	Php812	Php899	(Php87)	(10)
Accretion on financial liabilities – net	449	1,735	(1,286)	(74)
Financing charges	36	31	5	16
Dividends on preferred stock subject to mandatory redemption	9	93	(84)	(90)
Loss (gain) on derivative transactions – net	(7)	29	(36)	(124)
Capitalized interest	(82)	(143)	61	(43)
Interest income	(499)	(585)	86	(15)
Foreign exchange losses (gains) – net	(992)	205	(1,197)	584
	(Php274)	Php2,264	(Php2,538)	(112)

Other expenses increased by Php191 million, or 53%, to Php549 million primarily due to higher various business and operational-related expenses.

Provision for Income Tax

Provision for income tax increased by Php4,459 million, or 151%, to Php7,412 million in the first half of 2007 from Php2,953 million in the same period in 2006. In the first half of 2007, the effective tax rate for our wireless business was 33% as compared to 16% in the same period in 2006 mainly due to the recognition of deferred tax assets of Piltel in 2006.

Net Income

Our wireless business segment recorded a net income of Php15,150 million in the first half of 2007, a decrease of Php151 million, or 1%, over Php15,301 million registered in the same period in 2006 on account of higher provision for income tax largely due to Piltel's recognition of deferred tax assets in 2006.

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 2007 totaled Php24,067 million, a decrease of Php251 million, or 1%, from Php24,318 million in the same period in 2006.

The following table summarizes revenues from our fixed line business for the six months ended June 30, 2007 and 2006 by service segment:

	Six Months Ended June 30,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
Fixed line services:						
Service Revenues						
Local exchange	Php7,822	32	Php8,587	35	(Php765)	(9)
International long distance	4,562	19	5,051	21	(489)	(10)
National long distance	3,255	14	3,504	14	(249)	(7)
Data and other network	7,251	30	6,242	26	1,009	16
Miscellaneous	700	3	669	3	31	5
	23,590	98	24,053	99	(463)	(2)
Non-Service Revenues	89	–	36	–	53	147
Other Income	388	2	229	1	159	69
Total Fixed Line Revenues and Other Income	Php24,067	100	Php24,318	100	(Php251)	(1)

Service Revenues

Local Exchange Service

Our local exchange service revenues consist of:

- flat monthly fees for our postpaid and fixed charges for our bundled and data 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, 2007 and 2006:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2007	2006	Amount	%
		(Unaudited)		
Total local exchange service revenues (in millions)	Php7,822	Php8,587	(Php765)	(9)
Number of fixed line subscribers	1,819,943	1,747,048	72,895	4
Postpaid	1,460,110	1,461,639	(1,529)	–
Prepaid	359,833	285,409	74,424	26
Number of fixed line employees	8,670	9,149	(479)	(5)
Number of fixed line subscribers per employee	210	191	19	10

Revenues from our local exchange service decreased by Php765 million, or 9%, to Php7,822 million in the first half of 2007 from Php8,587 million in the same period in 2006. The decrease was primarily due to the appreciation of the peso which required us to make downward adjustments in our monthly local service rates and the change in subscriber base mix in favor of prepaid subscribers with lower average revenue per user. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 33% in the first half of 2007 as compared to 36% in the same period in 2006.

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 fixed line subscribers are charged based on usage at a rate of Php1.00 per minute for local calls. A prepaid fixed line subscriber is recognized as an active subscriber when that subscriber activates and uses a prepaid call card, whether reloadable or the regular card. All sales of prepaid cards, whether through dealers or through PLDT's business offices, are non-refundable. In July 2006, we introduced *Telepwede*, an upgraded prepaid fixed line service. *Telepwede* subscribers are charged Php115 per month to receive incoming calls. Since *Telepwede* runs on the prepaid platform of *Pwede! Card*, subscribers can reload for as low as Php30 to make outgoing calls. Vibe prepaid dial-up service can also be accessed through *Pwede! Card*.

In March 2007, PLDT launched the PLDT Landline Plus, a GSM fixed wireless service where subscribers to the service benefit from a text-capable home phone. This service is initially offered outside Metro Manila with the phone unit at Php2,400 and a monthly service fee of Php600 and Php1,000 for residential and business subscribers, respectively. As at June 30, 2007, there were a total of 6,882 PLDT Landline Plus subscribers.

Pursuant to a currency exchange rate adjustment, or CERA, 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. In the first half of 2007, we implemented five downward adjustments in our monthly local service rates, while there were two upward adjustments and four downward adjustments in the same period in 2006. The average Philippine peso to U.S. dollar rate factored in our monthly local service rates in the first half of 2007 was Php48.36 to US$1.00, compared to an average of Php51.97 to US$1.00 in the same period in 2006. This change in the average peso-to-dollar rate translated to a peso appreciation of 7%, which resulted in a net decrease of approximately 7% in our average monthly local service rates in the first half of 2007. In its letter dated July 16, 2007, the NTC has approved our request to use annual average exchange rates as our basis in CERA computation instead of the currently used monthly averages.

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, 2007 and 2006:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2007	2006	Amount	%
	(Unaudited)			
Total international long distance service revenues (in millions)	Php4,562	Php5,051	(Php489)	(10)
Inbound	3,835	4,265	(430)	(10)
Outbound	727	786	(59)	(8)
International call volumes (in million minutes, except call ratio)	1,141	1,031	110	11
Inbound	1,008	939	69	7
Outbound	133	92	41	45
Inbound-outbound call ratio	7.6:1	10.2:1	–	–

Our total international long distance service revenues decreased by Php489 million, or 10%, to Php4,562 million in the first half of 2007 from Php5,051 million in the same period in 2006, primarily due to the peso appreciation and a decrease in average termination rates for inbound calls mitigated by an increase in call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 19% in the first half of 2007 from 21% in the same period in 2006.

Our revenues from inbound international long distance service decreased by Php430 million, or 10%, to Php3,835 million due to the appreciation of the Philippine peso to the U.S. dollar coupled with a decrease in average rate per minute due to the change in call mix with more traffic terminating to cellular operators where the net revenue kept by us is lower. These decreasing effects were partially offset by an increase in inbound traffic volume by 69 million minutes to 1,008 million minutes in the first half of 2007. The appreciation of the Philippine peso to the U.S. dollar with average rates of Php47.610 in the first half of 2007 and Php52.145 in the same period in 2006 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 Php59 million, or 8%, to Php727 million in the first half of 2007 primarily due to a decline in average revenue per minute as a result of a lower average collection rate with the introduction of low-rate services such as *PLDT ID-DSL* and *Budget Card*, and the peso appreciation in 2007, which more than offset the increase in outbound international call volumes in 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.

To address the market's demand for low-priced international calls, PLDT offers the *Budget Card*, a prepaid call card, which has a low rate of Php3 per minute to the US (Mainland), Canada and Hongkong, Php5 per minute to China, Malaysia, Singapore, South Korea and Taiwan, and Php8 per minute to 88 calling destinations. In April 2007, we introduced the *Budget Card Middle East Edition* which offers reduced IDD call rates of Php10 per minute and Php15 per minute to 15 different destinations in the Middle East. *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 three months ended June 30, 2007 and 2006:

	Six Months Ended June 30,			
			Decrease	
	2007	2006	Amount	%
	(Unaudited)			
Total national long distance service revenues (in millions)	Php3,255	Php3,504	(Php249)	(7)
National long distance call volumes (in million minutes)	1,094	1,122	(28)	(2)

Our national long distance service revenues decreased by Php249 million, or 7%, to Php3,255 million in the first half of 2007 from Php3,504 million in the same period in 2006, primarily due to a decrease in call volumes coupled with lower average revenue per minute in the first quarter of 2007. Accordingly, the percentage contribution of national long distance revenues to our fixed line service revenues accounted for 14% and 15% in the first half of 2007 and 2006, respectively.

Data and Other Network Services

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

The following table shows information about our data and other network service revenues for the six months ended June 30, 2007 and 2006:

	Six Months Ended June 30,			
			Increase	
	2007	2006	Amount	%
(in millions)		(Unaudited)		
Data and other network service revenues	Php7,251	Php6,242	Php1,009	16
Number of DSL broadband subscribers	200,029	109,245	90,784	83
Number of PLDT Vibe narrowband subscribers	302,571	299,991	2,580	1

In the first half of 2007, our data and other network services posted revenues of Php7,251 million, an increase of Php1,009 million, or 16%, from Php6,242 million in the same period in 2006, primarily due to increases in leased lines, IP-based and switched-based data services, particularly Diginet and DFON rental, and *PLDT DSL* mitigated by lower *PLDT Vibe* services. The revenue contribution of this service segment to our fixed line service revenues increased to 31% in the first half of 2007 from 26% in the same period in 2006.

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

DSL contributed revenues of Php1,751 million in the first half of 2007, an increase of Php231 million, or 15%, from Php1,521 million in the same period in 2006, primarily due to an increase in the number of subscribers. *DSL* reached 200,029 subscribers as at June 30, 2007 compared with 109,245 subscribers in the same period in 2006. *DSL* offers a number of packages with maximum speeds ranging from 88 kbps to 5 Mbps depending on the plan.

PLDT Vibe revenues decreased by Php46 million, or 24%, to Php146 million in the first half of 2007 from Php192 million in the same period in 2006, primarily due to lower number of plan subscribers as well as the declining usage of Vibe prepaid. The declining number of Vibe plans and regular monthly users for Vibe prepaid may be attributed to the migration from Vibe dial-up to *DSL* which is now priced more competitively. As at June 30, 2007, *PLDT Vibe* registered users totaled 302,571, of which 84,735 were exclusive postpaid users, 207,791 were exclusive prepaid users, and 10,045 were both postpaid and prepaid users. As at June 30, 2006, *PLDT Vibe* registered users totaled 299,991, of which 112,296 were exclusive postpaid users, 164,374 were exclusive prepaid users, and 23,321 were both postpaid and prepaid users.

In support of the growing data requirements of the small and medium enterprise market, the network footprints of BRAINS, IP-VPN and *Shops.work,* PLDT's private local networking services, have been expanded with the roll-out of NGN facilities in key business areas across the country.

The continued growth in data services revenues can be attributed to several product offerings. The steady demand for dedicated connectivity or private networking from the corporate market using PLDT's traditional international and domestic data offerings – Fibernet, Arcstar, Acacia, I-Gate, Diginet, BRAINS, IP-VPN and *Shops.work*, among others – continues to provide us with a stable revenue source.

Diginet, our domestic private leased line service, has been providing Smart's increasing fiber optic and leased line data requirements. Diginet revenues increased by Php462 million, or 14%, to Php3,288 million in the first half of 2007 as compared to Php2,826 million in the same period in 2006 mainly due to Smart's DFON rental of Php2,469 million and Php1,990 million in the first half of 2007 and 2006, respectively.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising and facilities rental. In the first half of 2007, these revenues increased by Php31 million, or 5%, to Php700 million from Php669 million in the same period in 2006. The improvement was mainly due to an increase in facility management fees, mitigated by a decrease in rental income brought about by a decline in co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in the first half of 2007 and 2006.

Non-service Revenues

Non-service revenues increased by Php53 million, or 147%, to Php89 million in the first half of 2007 from Php36 million in the same period in 2006 primarily due computer sales in relation to our DSL promotion.

Other Income

All other income/gains such as rental income and gain on disposal of property, which do not fall under service and non-service revenues, are included under this classification. In the first half of 2007, our fixed line business segment registered an increase in other income of Php159 million, or 69%, to Php388 million from Php229 million in the same period in 2006 mainly due to income from disposal of fixed assets and various materials.

Expenses

Expenses related to our fixed line business totaled Php20,604 million in the first half of 2007, a decrease of Php3,418 million, or 14%, as compared to Php24,022 million in the same period in 2006. The decrease was primarily due to lower depreciation and amortization, financing costs, and selling and promotions expense partially offset by higher professional and other contracted services, compensation and benefits expense and taxes and licenses.

The following table shows the breakdown of our total fixed line-related expenses for the six months ended June 30, 2007 and 2006 and the percentage of each expense item to the total:

	Six Months Ended June 30,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
Fixed line services:						
Depreciation and amortization	Php6,508	32	Php10,038	42	(Php3,530)	(35)
Compensation and benefits[1]	4,817	23	4,560	19	257	6
Financing costs	3,459	17	3,876	16	(417)	(11)
Maintenance	1,714	8	1,611	7	103	6
Professional and other contracted services	849	4	469	2	380	81
Rent	794	4	827	4	(33)	(4)
Selling and promotions	578	3	975	4	(397)	(41)
Taxes and licenses	575	3	343	1	232	68
Provisions	529	3	485	2	44	9
Communication, training and travel	228	1	239	1	(11)	(5)
Insurance and security services	223	1	265	1	(42)	(16)
Cost of sales	82	–	77	–	5	6
Other expenses	248	1	257	1	(9)	(4)
Total	Php20,604	100	Php24,022	100	(Php3,418)	(14)

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

Depreciation and amortization charges decreased by Php3,530 million, or 35%, to Php6,508 million due to higher additional depreciation charges recognized in 2006 on certain properties and equipment affected by our NGN roll-out.

Compensation and benefits expenses increased by Php257 million, or 6%, to Php4,817 million, primarily due to the effect of collective bargaining agreement-related increases in salaries and benefits, and an increase in pension benefits, partially offset by a reduction in the number of fixed line employees due to PLDT's manpower rightsizing program and lower costs of long-term incentive plan. For further discussion on our long-term incentive plan, please see *Note 21 – Employee Benefits* to the accompanying unaudited consolidated financial statements.

Financing costs decreased by Php417 million, or 11%, to Php3,459 million largely due to lower interest on loans and related items and lower hedge costs. These were partially offset by higher loss on derivative transactions in the first half of 2007 compared to a gain in the same period in 2006 and lower interest income. The breakdown of financing costs for our fixed line business for the six months ended June 30, 2007 and 2006 is as follows:

	Six Months Ended June 30,			
			Change	
	2007	2006	Amount	%
		(Unaudited)		
(in millions)				
Interest on loans and related items	Php2,809	Php3,449	(Php640)	(19)
Loss (gain) on derivative transactions	276	(6)	282	4,700
Hedge costs	645	746	(101)	(14)
Accretion on financial liabilities – net	94	88	6	7
Financing charges	1	8	(7)	(88)
Interest income	(139)	(243)	104	(43)
Capitalized interest	(173)	(159)	(14)	9
Foreign exchange gains – net	(54)	(7)	(47)	671
	Php3,459	Php3,876	(Php417)	(11)

Maintenance expenses increased by Php103 million, or 6%, to Php1,714 million, primarily due to higher maintenance costs for domestic cable and wire facilities as more operating and maintenance-related restorations were incurred in the first half of 2007 as compared to the same period in 2006.

Professional and other contracted services increased by Php380 million, or 81%, to Php849 million primarily due to PLDT's higher consultancy service fees coupled with higher contracted services in the first half of 2007.

Rent expenses decreased by Php33 million, or 4%, to Php794 million due to the decrease in transponder lease charges, partially offset by an increase in international leased circuits charges and higher office and building rentals.

Selling and promotion expenses decreased by Php397 million, or 41%, to Php578 million, primarily as a result of a collective effort in efficient media spending in relation to various products and services, partly offset by higher public relations expense in the first half of 2007.

Taxes and licenses increased by Php232 million, or 68%, to Php575 million, mainly on account of higher business-related taxes incurred in the first half of 2007 as compared to the same period in 2006.

Provisions increased by Php44 million, or 9%, to Php529 million primarily due to higher provision of doubtful accounts as a result of higher anticipated uncollectible receivables partially offset by lower provision for assessments in the first half of 2007 compared to the same period in 2006. The breakdown of provisions for our fixed line business for the six months ended June 30, 2007 and 2006 is as follows:

	Six Months Ended June 30,			
			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
		(Unaudited)		
(in millions)				
Doubtful accounts	Php510	Php336	Php174	52
Assessments	19	149	(130)	(87)
	Php529	Php485	Php44	9

Communication, training and travel expenses decreased by Php11 million, or 5%, to Php228 million due to a decrease in local and foreign travel and training in the first half of 2007 as compared to the same period in 2006.

Insurance and security services decreased by Php42 million, or 16%, to Php223 million, primarily due to lower premiums on property all-risk, industrial all-risk and industrial fire insurance.

Cost of sales increased by Php5 million, or 6%, to Php82 million in the first half of 2007 due to the computer-bundled sales in relation to our DSL promotion and *WeRoam* subscriptions.

Other expenses decreased by Php9 million, or 4%, to Php248 million due to various business and operational-related expenses resulting from continuing cost-containing activities.

Provision for Income Tax

Provision for income tax amounted to Php1,341 million in the first half of 2007 as compared to Php45 million in the same period in 2006 primarily due to net movement in deferred tax assets owing to higher foreign exchange differentials realized in 2006.

Net Income

In the first half of 2007, our fixed line business segment contributed a net income of Php2,122 million, an increase of Php1,871 million, or 745%, as compared to Php251 million in the same period in 2006 mainly as a result of a 14% decrease in fixed line-related expenses, particularly depreciation and amortization partially offset by a slight decrease in our service revenues.

Information and Communications Technology

Revenues and Other Income

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

On April 16, 2007, SPi acquired, through a wholly-owned US subsidiary, 100% of Springfield for an aggregate purchase price of US$35 million, or Php1,664 million, plus possible future earn out payments with an aggregate fair value at acquisition date of Php960 million. Springfield is one of the largest player in the medical billing and revenue cycle management market. As at June 30, 2007, SPi's total investment cost in Springfield amounted to Php2,683 million, including fair value of possible future earn out payments of Php960 million and incidental cost of Php59 million, see *Note 11 – Goodwill and Intangible Assets* to the accompanying unaudited financial statements for related discussion.

On July 11, 2006, ePLDT acquired a 100% equity interest in SPi and its direct and indirect Philippine and offshore subsidiaries. SPi is the second largest pure-play BPO service provider and the ninth largest independent BPO service provider worldwide. It has operations in 19 locations in North America, Europe and Asia. On August 11, 2006, SPi acquired 100% of CyMed, Inc., a leading medical transcription company based in Richmond, Virginia.

On February 16, 2006, ePLDT acquired a 60% equity interest in Level Up!, a leading publisher of online games in the Philippines. The acquisition of Level Up!, together with netGames, ePLDT's online gaming subsidiary, will strengthen ePLDT's online gaming business in the Philippines.

For further discussion, see *Note 2 – Summary of Accounting Policies and Practices – Basis of Preparation* to the accompanying unaudited consolidated financial statements.

In the first half of 2007, our information and communications technology business generated revenues of Php4,981 million, an increase of Php2,970 million, or 148%, from Php2,011 million in the same period in 2006. This increase was largely due to the consolidation of SPi Group and Level Up! and the continued increase of our call center revenues.

The following table summarizes revenues from our information and communications technology business for the six months ended June 30, 2007 and 2006 by service segment:

	Six Months Ended June 30,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
Service Revenues						
Call center	Php1,531	31	Php1,237	61	Php294	24
BPO	2,561	52	–	–	2,561	100
Internet and online gaming	457	9	340	17	117	34
Vitro™ data center	207	4	175	9	32	18
Others	50	1	60	3	(10)	(17)
	4,806	97	1,812	90	2,994	165
Non-service Revenues						
Point Product Sales	162	3	172	9	(10)	(6)
Other Income	13	–	24	1	(11)	(46)
Equity in net income of associates	–	–	3	–	(3)	(100)
Total ICT Revenues and Other Income	Php4,981	100	Php2,011	100	Php2,970	148

Service Revenues

Service revenues generated by our information and communications technology segment amounted to Php4,806 million in the first half of 2007, an increase of Php2,994 million, or 165%, as compared to Php1,812 million in the same period in 2006 primarily as a result of the consolidation of SPi Group and Level Up! and 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 has established one umbrella brand name, *ePLDT Ventus*, for all of its call center businesses, including Ventus, Vocativ and Parlance. Ventus provides offshore contact center outsourcing solutions specializing in inbound customer care. Vocativ provides customer and technical support to its clients in the Philippines, United States and the United Kingdom, while Parlance provides exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the United States. In addition, Infocom, through its Customer Service Outsourcing Group, handles PLDT group's nationwide technical helpdesk operations.

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 BPO based on transaction volume.

Revenues related to our call center business increased by Php294 million, or 24%, to Php1,531 million in the first half of 2007 from Php1,237 million in the same period in 2006 primarily due to the expansion of our facilities. In total, we own and operate approximately 6,030 seats with 4,730 customer service representatives, or CSRs, as at June 30, 2007 compared to approximately 4,660 seats with 3,500 CSRs as at June 30, 2006. In 2006, *ePLDT Ventus* launched two new sites bringing our total call center site count to seven as at June 30, 2007.

Call center revenues accounted for 32% and 68% of total information and communications technology service revenues in the first half of 2007 and 2006, respectively.

Business process outsourcing

BPO revenues consist of:

- editorial and content production services to the scholarly scientific, technical and medical (SSTM) journal publishing industry;
- digital content conversion services to information incentive organizations such as online and traditional publishers, libraries, educational institutions, Global 1,000 corporations and government agencies worldwide;
- pre-press project management services to book publishers;
- litigation support services which involve conventional coding and electronic discovery support services for international law firms, corporate counsels and government agencies; and
- conversion services of medical record/data from handwritten or speech format to electronic format and patient scheduling, coding and compliance assistance, consulting and specialized reporting services.

We provide our BPO services primarily through the SPi Group, which we acquired on July 11, 2006. In the first half of 2007, BPO contributed revenues of Php2,561 million, primarily from SPi Group services, and accounted for 53% of service revenues.

Internet and online gaming

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 the reselling 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 in 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 and online gaming businesses increased by Php117 million, or 34%, to Php457 million in the first half of 2007 from Php340 million in the same period in 2006 primarily due to the consolidation of Level Up! in May 2006 which resulted in additional revenues of Php45 million and an increase in Infocom's revenues by Php30 million. Our Internet and online gaming business revenues accounted for 10% and 19% of service revenues of our information and communications technology business in the first half of 2007 and 2006, 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 firewalls and managed firewalls.

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 2007, *Vitro*™ contributed revenues of Php207 million, an increase of Php32 million, or 18%, from Php175 million in the same period in 2006, primarily due to an increase in co-location revenues and server hosting. *Vitro*™ revenues accounted for 4% and 10% of service revenues of our information and communications technology business in the first half of 2007 and 2006, respectively.

Others

Other revenues consist of fees generated from the 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 decreased by Php10 million, or 17%, to Php50 million in the first quarter of 2007 from Php60 million in the same period in 2006.

Please refer to *Note 9 – Investments in Associates* to the accompanying unaudited consolidated financial statements for further discussion on ePLDT's investments.

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 quarter of 2007, non-service revenues generated by our information and communications technology business decreased by Php10 million, or 6%, to Php162 million as compared to Php172 million in the same period in 2006, primarily due to higher revenues from sales of 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 decreased to Php13 million in the first half of 2007 from Php24 million in the same period in 2006 primarily due to lower income from unconsolidated investee companies.

Equity Share in Net Income of Associates

ePLDT's equity share in net income of associates amounted to Php3 million in the first half of 2006 due to ePLDT's share in the earnings of its unconsolidated investee companies.

Expenses

Expenses associated with our information and communications technology business totaled Php5,016 million in the first half of 2007, an increase of Php3,080 million, or 159%, from Php1,936 million in the same period in 2006 primarily due to the consolidation of SPi Group and Level Up! resulting to an increase in compensation and benefits, professional and other contracted services, and depreciation and amortization. We currently expect these expenses to be significantly higher going forward as a result of the full year consolidation of SPi Group and Level Up!. As a percentage of our information and communications technology revenues, expenses related to our information and communications technology business were 101% and 96% for the first half of 2007 and 2006, respectively.

The following table shows the breakdown of our total information and communications technology-related expenses for the six months ended June 30, 2007 and 2006 and the percentage of each expense item to the total:

	Six Months Ended June 30,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
Information and communications technology services:						
Compensation and benefits(1)	Php2,583	51	Php855	44	Php1,728	202
Professional and other contracted services	607	12	50	3	557	1,114
Depreciation and amortization	475	10	252	13	223	88
Rent	329	7	228	12	101	44
Maintenance	245	5	139	7	106	76
Communication, training and travel	229	5	75	4	154	205
Cost of sales	143	3	144	7	(1)	(1)
Selling and promotions	130	3	89	5	41	46
Amortization of intangible assets	96	2	3	–	93	3,100
Taxes and licenses	39	–	19	1	20	105
Insurance and security services	24	–	10	1	14	140
Asset impairment	21	–	5	–	16	320
Equity share in net losses of associates	9	–	–	–	9	100
Provisions	3	–	1	–	2	200
Financing gains	(8)	–	(5)	–	(3)	60
Other expenses	91	2	71	3	20	28
Total	Php5,016	100	Php1,936	100	Php3,080	159

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

Compensation and benefits increased by Php1,728 million, or 202%, to Php2,583 million largely due to the increased number of employees and corresponding salaries and employee benefits resulting from the expansion of our call center businesses and the consolidation of SPi Group and Level Up! in 2006.

Professional and other contracted services increased by Php557 million to Php607 million primarily due to higher consultancy fees and sub-contracted services by SPi Group related to its BPO services.

Depreciation and amortization charges increased by Php223 million, or 88%, to Php475 million primarily due to an increase in the depreciable asset base in relation to the expansion of our call center businesses and the consolidation of SPi Group in July 2006.

Rent expenses increased by Php101 million, or 44%, to Php329 million primarily due to higher office space rentals and leased circuits from other carriers by call center business and Level Up!.

Maintenance expenses increased by Php106 million, or 76%, to Php245 million primarily due to higher maintenance costs for call centers relative to its new facilities complemented by higher electricity charges of *Vitro*™ and the consolidation of the SPi Group and Level Up!.

Communication, training and travel expenses increased by Php154 million, or 205%, to Php229 million, primarily due to the increased cost of phone lines, bandwidth and information system charges, coupled with the increase in local travel costs, mailing and courier charges and freight and hauling charges incurred by our call center and BPO businesses.

Cost of sales decreased by Php1 million, or 1%, to Php143 million primarily due to a decrease in the cost of point products sold in the first half of 2007.

Selling and promotion expenses increased by Php41 million, or 46%, to Php130 million mainly due to SPi Group's commissions expenses as well as an increase in advertising and marketing spending of netGames and Level Up!.

Amortization of intangible assets increased by Php93 million to Php96 million in the first half of 2007 in relation to the acquisition of SPi Group and Level Up!. See *Note 11 – Goodwill and Intangible Assets* to the accompanying unaudited consolidated financial statements for further discussion.

Taxes and licenses increased by Php20 million, or 105%, to Php39 million primarily due to the consolidation of the SPi Group and higher business-related taxes accrued and paid in the first half of 2007 as compared to the same period in 2006.

Insurance and security services increased by Php14 million, or 140%, to Php24 million, primarily due to higher premium costs and an increase in the value of assets insured in the first half of 2007 as compared to the same period in 2006.

ePLDT's equity share in net losses of associates amounted to Php9 million in the first half of 2007, primarily due to the amortization of intangibles pertaining to the Philweb acquisition. ePLDT acquired a total of 25.5% equity interest in Philweb in May 2006 and October 2006.

Provisions increased by Php2 million, or 200%, to Php3 million mainly due to anticipated uncollectible accounts specifically identified in the first half of 2007 and 2006.

Financing gains amounted to Php8 million in the first half of 2007, primarily due to a gain on derivative transactions; no similar transaction was recorded in the same period in 2006. This was partially offset by higher foreign exchange losses largely due to the significant peso appreciation.

Other expenses increased by Php20 million, or 28%, to Php91 million mainly due to higher business-related costs, such as office supplies.

Benefit from Income Tax

Benefit from income tax amounted to Php38 million in the first half of 2007 primarily due to the corresponding deferred tax effect of the amortization of intangible assets in relation to the acquisition of SPi Group and Level Up!, as compared to Php12 million in the same period in 2006.

Net Income

In the first half of 2007, our information and communications technology business segment registered a net income of Php3 million as compared to Php87 million in the same period in 2006 mainly as a result of a 148% increase in ICT-related revenues mainly from the consolidation of SPi Group and increased contribution of our call center business, partly offset by the 159% increase in ICT expenses mainly from the opening of two call centers and the consolidation of SPi Group.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the six months ended June 30, 2007 and for the year ended December 31, 2006 as well as consolidated capitalization and other selected financial data as at June 30, 2007 and 2006:

	Six Months Ended June 30,	
	2007	**2006**
	(Unaudited)	
(in millions)		
Cash Flows		
Net cash provided by operating activities	Php37,976	Php33,595
Net cash used in investing activities	19,865	13,891
Capital expenditures	*9,966*	*12,430*
Net cash used in financing activities	21,951	23,943
Net decrease in cash and cash equivalents	(4,081)	(4,098)

	June 30,	December 31,
	2007	**2006**
(in millions)	(Unaudited)	(Audited)
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php59,982	Php63,769
Obligations under capital lease	39	106
Preferred stock subject to mandatory redemption	1,174	1,369
	61,195	65,244
Current portion of interest-bearing financial liabilities:		
Notes payable	258	201
Long-term debt maturing within one year	7,882	16,184
Obligations under capital lease maturing within one year	929	924
	9,069	17,309
Total interest-bearing financial liabilities	70,264	82,553
Total equity	112,714	104,523
	Php182,978	Php187,076
Other Financial Data		
Total assets	Php239,171	Php241,892
Property, plant and equipment – net	160,735	164,190
Cash and cash equivalents	12,789	16,870

As at June 30, 2007, our consolidated cash and cash equivalents totaled Php12,789 million. Principal sources of consolidated cash and cash equivalents in the first half of 2007 were cash flows from operating activities amounting to Php37,976 million and drawings from Smart's, PLDT's and ePLDT's debt facilities aggregating Php5,429 million. These funds were used principally for capital outlays of Php9,966 million, total debt principal payments of Php14,130 million and short-term investments of Php9,182 million.

Operating Activities

Our consolidated net cash flows from operating activities increased by Php4,381 million, or 13%, to Php37,976 million in the first half of 2007 from Php33,595 million in the same period in 2006. A significant portion of our cash flow is generated by our wireless business, which contributed approximately 60% of our total revenues and other income in the first half of 2007 and 2006. Revenues from our fixed line and information and communications technology services accounted for 33% and

7%, respectively, of our total revenues and other income in the first half of 2007 compared to 37% and 3%, respectively, in the same period in 2006.

Cash flows from operating activities of our wireless business amounted to Php24,749 million in the first half of 2007, an increase of Php7,270 million, or 42%, compared to Php17,479 million in the same period in 2006. The increase in our wireless business segment's cash flows from operating activities was primarily due to the decrease in our working capital requirements owing to the settlement of various payables in 2006. However, cash flows from operating activities of our fixed line business decreased to Php11,073 million in the first half of 2007, compared to Php14,440 million in the same period in 2006 due to higher accounts receivable billings vis-a-vis collections for the comparative period. Our wireless business segment accounted for 68% of our cash flows from operating activities while our fixed line segment accounted for 31% in the first half of 2007. We 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, 2007.

Until April 2006, Smart was subject to loan covenants that restricted 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 was able to obtain waivers from Finnvera and certain of its lenders for all dividend payments made by Smart to PLDT up to March 2006. Dividend payments made by Smart to PLDT after April 2006 did not require prior creditor consent as all loan facilities that contain such restrictions have already been repaid. Dividends paid by Smart to PLDT for the six months ended June 30, 2007 and 2006 amounted to Php18,000 million and Php14,000 million, respectively.

Investing Activities

Net cash used in investing activities amounted to Php19,865 million in the first half of 2007, an increase of Php5,974 million, or 43%, compared to Php13,891 million in the same period in 2006. This was primarily a net result of: (1) the increase in short-term investments by Php8,757 million in the first half of 2007 mainly due to Smart's increased investment in money market placements with over 90 days maturity; (2) a decrease in capital expenditures by Php2,464 million; and (3) lower investment acquisition by Php288 million. However, we expect capital expenditures to be higher in the second half of 2007.

Our consolidated capital expenditures in the first half of 2007 totaled Php9,966 million, a decrease of Php2,464 million, or 20%, from Php12,430 million in the same period in 2006 primarily due to PLDT's, Smart's and ePLDT's lower capital spending. Smart's capital spending of Php3,989 million in the first half of 2007 was used primarily to further upgrade its core, access and transmission network facilities, expand its wireless broadband facilities and develop IT platforms for new businesses. PLDT's capital spending of Php5,661 million was principally used to finance the expansion and upgrade of its submarine cable facilities, fixed line data and IP-based network services. ePLDT and its subsidiaries' capital spending of Php276 million was primarily used to fund its continued call center expansion. The balance represented other subsidiaries' capital spending. Consolidated capital expenditures in the first half of 2006 amounted to Php12,430 million, of which Php6,064 million, Php5,765 million and Php520 million were attributable to Smart, PLDT and ePLDT, respectively.

Financing Activities

On a consolidated basis, we used net cash of Php21,951 million for financing activities, net of loan drawings by Smart, in the first half of 2007, a decrease of Php1,992 million, or 8%, compared to

Php23,943 million in the same period in 2006. The net cash used in financing activities in 2006 was mainly utilized for debt repayments and interest payments by PLDT and Piltel in line with their ongoing debt reduction programs, 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 2007 totaled Php5,429 million mainly from Smart's drawings related to the financing of its network expansion projects. Payments in respect of principal and interest of our total debt amounted to Php14,130 million and Php3,375 million, respectively, in the first half of 2007, of which Php10,684 million and Php2,641 million were attributable to PLDT, respectively.

The following table shows our long-term debt, including current portion, as at June 30, 2007 and December 31, 2006:

	June 30, 2007	December 31, 2006	Increase (Decrease) Amount	%
	(Unaudited)	(Audited)		
(in millions)				
U.S. Dollar Debt:				
Export Credit Agencies-Supported Loans	Php10,591	Php14,981	(Php4,390)	(29)
Fixed Rate Notes	31,254	40,971	(9,717)	(24)
Term Loans	16,494	18,611	(2,117)	(11)
Satellite Acquisition Loans	1,621	2,083	(462)	(22)
	59,960	76,646	(16,686)	(22)
Philippine Peso Debt:				
Peso Fixed Rate Corporate Notes	4,987	808	4,179	517
Term Loans	2,917	2,499	418	17
	7,904	3,307	4,597	139
	Php67,864	Php79,953	(Php12,089)	(15)

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

Our long-term debt decreased by Php12,089 million, or 15%, to Php67,864 million as at June 30, 2007, largely due to debt amortizations 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 24% to Php39,749 million by June 30, 2007. The debt levels of Smart increased by 4% to Php26,454 million while Mabuhay and ePLDT decreased by 22% and 29% to Php1,621 million and Php40 million, respectively, as at June 30, 2007 due to amortizations and prepayments during the first half of 2007.

On May 22, 2007, PLDT signed loan agreements with The Philippine American Life and General Insurance Company for Php400 million and with The Philam Bond Fund, Inc. for Php20 million to refinance their respective participations in the Ten-Year Note under the Php1,270 million Peso Fixed Rate Corporate Notes which were repaid on June12, 2007.

On February 15, 2007 Smart issued Php5 billion unsecured fixed rate corporate notes, made up of Series A notes amounting to Php3.8 billion and Series B notes amounting to Php1.2 billion with five and ten year terms, respectively. Series A notes were priced at 5.625%, while Series B notes were priced at 6.500%. Funds raised from the issuance of these notes will be used primarily for Smart's capital expenditures for network improvement and expansion.

On October 16, 2006, Smart signed a U.S. Dollar Term Loan Facility with Metropolitan Bank and Trust Company to finance the related Phase 9 GSM Facility for an amount of US$50 million. As at June 30, 2007, this facility remained undrawn. 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 consolidated long-term debt at nominal values as at June 30, 2007 are as follows:

Year	**US$ Loans**		**Peso Loans**	**Total**
(Unaudited)		(in millions)		
2007[1]	US$84	Php3,908	Php279	Php4,187
2008	147	6,795	558	7,353
2009	263	12,163	570	12,733
2010	71	3,274	568	3,842
2011	15	686	568	1,254
2012 and onwards	830	38,391	5,384	43,775
	US$1,410	Php65,217	Php7,927	Php73,144

(1) July 1, 2007 through December 31, 2007.

Approximately Php29,369 million principal amount of our consolidated outstanding long-term debt as at June 30, 2007 is scheduled to mature over the period from 2007 to 2011. Of this amount, Php14,360 million was attributable to PLDT, Php13,348 million to Smart and the remainder to Mabuhay Satellite 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 Philippine Financial Reporting Standards, 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.

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.

As a result of our improving cash flows and reduced debt levels, we currently intend to gradually increase our dividend payout ratio in succeeding years as we improve our leverage ratios. For 2006, our dividend payout ratio was 60% of 2006 earnings which we currently intend to increase to 70% in 2007.

On August 7, 2007, we declared a special dividend of Php40 per share attributable to our 2006 earnings. This special dividend is an incremental dividend payout representing approximately 25% of our 2006 earnings per share. As a result of such special dividend declaration, our total dividend payments attributable to our 2006 earnings increased to Php140 per share, inclusive of the regular dividends paid out of our 2006 earnings aggregating Php100 per share.

The following table set forth the dividend declaration on PLDT's common stock pertaining to 2006 and 2007 earnings:

	Date			Amount	
Earnings	**Approved**	**Record**	**Payable**	**Per share**	**Total**
					(in millions)
2006	August 8, 2006	August 21, 2006	September 21, 2006	Php50	Php9,379
2006	March 6, 2007	March 20, 2007	April 20, 2007	50	9,429
2006	August 7, 2007	August 24, 2007	September 24, 2007	40	7,546
				Php140	Php26,354
2007	August 7, 2007	August 24, 2007	September 24, 2007	Php60	Php11,318

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**
Moody's Investor Service	Foreign Currency Senior Unsecured Debt Rating	Ba2	Stable
	Local Currency Corporate Family Rating	Baa2	Stable
Standard and Poor's	Foreign Currency Senior Unsecured Debt Rating	BB+	Stable
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 May 31, 2007, Moody's upgraded our local currency corporate family rating to Baa2 with a stable outlook from Baa3. At the same time, Moody's affirmed our foreign currency rating at Ba2 with a stable outlook. This rating action concluded the review for possible upgrade that Moody's commenced on April 11, 2007. The upgrade reflects the continued improvement in our financial profile and the consolidation of our strong operating performance.

On November 3, 2006, Moody's affirmed PLDT's Ba2 senior unsecured foreign currency rating and changed its outlook to stable from negative. The rating action was prompted by the change in outlook on the Philippines Ba3 country ceiling for foreign currency bonds to stable from negative. On July 18, 2006, Moody's upgraded PLDT's local currency corporate family rating from Ba1 to Baa3 with a positive outlook.

On August 18, 2006, Fitch upgraded PLDT's long-term foreign currency IDR to "BB+" from "BB" with a stable outlook, at the same time upgrading PLDT's global bonds and senior notes to "BB+" from "BB" and affirmed PLDT's long-term local currency IDR of "BBB-" with a positive outlook.

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. The ratings action follows Fitch's announcement that it has upgraded the Country Ceiling on the Republic of the Philippines to "BB+" from "BB."

On August 30, 2006, Standard & Poor's Ratings Services affirmed its 'BB+' foreign currency rating on PLDT with stable outlook. At the same time, the rating on PLDT's Series III Preferred Stock has been withdrawn as the preferred stock have been fully converted into common equity.

Equity Financing

PLDT raised Php52 million and Php43 million from the exercise by certain officers and executives of stock options in the first half of 2007 and 2006, respectively.

Cash dividend payments in the first half of 2007 amounted to Php9,460 million compared to Php5,334 million paid to preferred and common shareholders in the same period in 2006. As at June 30, 2007, there were 188.6 million PLDT common shares outstanding compared to 182.8 million common shares outstanding as at June 30, 2006.

Contractual Obligations and Commercial Commitments

Contractual Obligations

The following table discloses our consolidated contractual obligations outstanding as at June 30, 2007:

	Payments Due by Period				
	Total	**Within 1 year**	**2–3 years**	**4–5 years**	**After 5 years**
			(Unaudited)		
(in millions)					
Long-term debt [1]	Php73,144	Php7,987	Php18,686	Php18,069	Php28,402
Long-term lease obligations:					
Operating lease	1,482	1,445	36	1	–
Capital lease	3,534	646	1,246	823	819
Unconditional purchase obligations[2]	763	12	46	220	485
Other long-term obligations	1,311	–	1,311	–	–
Total contractual obligations	Php80,234	Php10,090	Php21,325	Php19,113	Php29,706

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

(2) Based on the amended 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 Capital Lease Obligation*s

For a discussion of our long-term capital lease obligations, 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 10 to 25 years expiring at various dates. As at June 30, 2007, PLDT's aggregate remaining obligation under these contracts amounted to approximately Php4 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, 2007, 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 amounting to Php3,091 million as at June 30, 2007 in respect of office and cell site rentals with over 3,000 lessors nationwide, PLDT has lease obligations amounting to Php85 million as at June 30, 2007 in respect of office and lot rentals with over 172 lessors nationwide, ePLDT has lease obligations amounting to Php186 million as at June 30, 2007 in respect of certain office space rentals and PLDT Global has lease obligations amounting to Php148 million as at June 30, 2007 in respect of certain office space rentals.

Unconditional Purchase Obligations

Air Time Purchase Agreement with AIL. PLDT was a party to a Founder National Service Provider, or NSP, Air Time Purchase Agreement, or ATPA, entered into in March 1997 (amended in December 1998) with AIL, under which PLDT was granted the exclusive right to sell AIL services as NSP in the Philippines. In exchange, the ATPA required PLDT to purchase from AIL a minimum of US$5 million worth of air time annually over ten years commencing January 1, 2002, the purported date of commercial operations of Garuda I Satellite. In the event that AIL's aggregate billed revenue is less than US$45 million in any given year, the ATPA states that PLDT has to make supplemental air time purchase payments not to exceed US$15 million per during the ten-year term.

After lengthy negotiations including a collaboration arrangement with Inmarsat, AIL and ACeS signed a term sheet ("Banks' Term Sheet") in September 2006 (as amended in October 2006, November 2006 and January 2007) with the majority of AIL's bank creditors. The Banks' Term Sheet was aimed to be used as basis for further good faith negotiations among the parties with a view to enter into a further amendment to the Amended and Restated Credit Agreement. Under the Banks' Term Sheet, the majority banks, subject to the satisfaction of certain conditions, agreed to, among others: (1) redenominate AIL's debt, and (2) amend the Founder NSP ATPA payments to: (i) US$500,000 per year for each of the NSPs, including PLDT, PSN and Jasmine, from 2007 to 2010, and (ii) US$3,000,000 per year each for PLDT and PSN from 2011 to 2015. For further discussion please see *Note 20 – Related Party Transactions* to the accompanying unaudited consolidated financial statements.

As at June 30, 2007, PLDT's aggregate remaining minimum obligation under the amended ATPA was approximately Php763 million.

Other Long-term Obligations

Mandatory Conversion and Purchase of Shares. As discussed in *Note 17 – Interest-bearing Financial Liabilities*, as at June 30, 2007, 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. As at June 30, 2007, 2,680,870 shares of Series V Convertible Preferred Stock and 4,551,886 shares of Series VI Convertible Preferred Stock and 3,842,000 shares of Series VII Convertible Preferred Stock had been voluntarily converted to PLDT common shares. As at June 30, 2007, 40,570 shares of Series V and 743,218 shares of Series VI Convertible Preferred Stocks remained outstanding.

Each share of Series V and VI 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, 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 and VI Convertible Preferred Stocks will be able to require PLDT to purchase such PLDT common shares for Php1,700 per share and US$36.132 per share, respectively.

The aggregate value of the put option based on outstanding shares as at June 30, 2007 was Php1,311 million which is puttable on June 4, 2008, if all of the outstanding shares of Series V and VI Convertible Preferred Stocks were mandatorily converted and all the common shares were put to PLDT at that time. The market value of the underlying shares of common stock was Php2,077 million, based on the market price of PLDT common shares of Php2,650 per share as at June 30, 2007.

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, 2007, our outstanding commercial commitments, in the form of letters of credit, amounted to Php1,767 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 currently 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, 2007, the Philippine peso had appreciated by 6% against the U.S. dollar to Php46.246 to US$1.00 from Php49.045 to US$1.00 as at December 31, 2006. On the other hand, as at June 30, 2006, the peso had depreciated to Php53.220 to US$1.00 from Php53.062 to US$1.00 as at December 31, 2005. The revaluation of our foreign-currency denominated assets and liabilities is recognized as foreign exchange gains or losses as at the balance sheet date. Since most of our indebtedness is denominated in U.S. dollars, the appreciation or depreciation of the Philippine peso results in the recognition of foreign exchange gains or losses. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt and hedges we carry. As at June 30, 2007, consolidated foreign currency denominated debt was reduced to Php59,960 million from Php88,865 million as at June 30, 2006. As such, we recognized foreign exchange gains of Php995 million and a foreign exchange loss of Php195 million in the first half of 2007 and 2006, respectively.

While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, most 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, 2007, approximately 89% of our total consolidated debts were denominated in U.S. dollars. Thus, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase both the principal amount of our unhedged foreign currency-denominated debts (representing 46% of our consolidated debts, or 34% net of our U.S. dollar cash balances as at June 30, 2007), and interest expense on our debt in Philippine peso terms. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

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 exchange risks 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 for 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 directly as income or expense for the period. As at June 30, 2007, PLDT's outstanding principal-only long-term cross-currency swap contracts and currency option contracts amounted to US$550 million; and US$136 million, respectively. Smart had no outstanding forward foreign exchange contracts as at June 30, 2007.

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, 2007, PLDT's outstanding interest rate swap contracts amounted to US$31 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 2007 was 2.6%, compared to 7.1% in the same period in 2006.

PART II – OTHER INFORMATION

Launch of mobile TV service

On July 24, 2007, Mediaquest Holdings, Inc., through its subsidiary, 360media Corp., launched *myTV*, the first commercial mobile TV service in the country. This service enables Smart subscribers with mobile TV-capable handsets to enjoy *myTV*'s range of top-rated TV channels. *myTV* uses Digital Video Broadcasting – Handheld, or DVB-H, platform that delivers real-time events through a digital TV signal optimized for mobile devices wherein programs can be simultaneously viewed by an unlimited number of subscribers. *myTV* is not transmitted through the cellular network unlike mobile TV from video streaming and video-downloads services which are currently offered through 3G cellular networks. Initial coverage areas include Mega Manila, Cebu, Davao, Tagaytay, Batangas and Baguio.

The *myTV* package will be an additional charge of Php488 on top of the regular postpaid airtime plans. Prepaid subscribers on the other hand, need only maintain Php1 airtime load on top of the Php488 monthly *myTV* package to avail the service. *myTV* service will be free until August 31, 2007.

As the sales and distribution partner for *myTV*, Smart will receive 60% of net revenues, with net revenues being defined as gross revenues less VAT, programming and reloading costs.

Partnership with Inmarsat plc

On August 2, 2007, Smart announced a partnership with global satellite communications service firm Inmarsat plc to offer a wider terrestrial and maritime coverage for its satellite phone services, *SMARTLink*. This strategic collaboration involves Inmarsat making available its global satellite infrastructure for the delivery of Smart's products and services to *SMARTLink* subscribers as well as a US$5 million investment by Smart to set up the gateway facility and ground infrastructure in Subic, Zambales. The partnership will result in an initial expanded coverage for the *SMARTLink* prepaid wireless satellite phone service to include India, the Indian Ocean, the Middle East, Africa, one-half of the Australian continent, and parts of Russia and the Pacific Ocean. The *SMARTLink* services will be carried on Inmarsat's I-4 satellite, which can support both voice call services and data connectivity.

This expanded coverage area complements the existing coverage provided by the Garuda I base of Asia Cellular Satellite, which already covers 11 million square miles of Asia, from Pakistan in the west to Japan in the east and Indonesia and Papua New Guinea in the south.

Smart's Acquisition of Blue Ocean Wireless, or BOW

On August 3, 2007, Smart has agreed to acquire a 30% equity interest in BOW, a Dublin-based company delivering GSM communication capability for the merchant maritime sector. The investment by Smart will be US$15.9 million. BOW provides the world's first GSM network on the seas through *Altobridge*, a patented GSM platform that supports full voice and text services, thus providing an important complementary service to Smart's prepaid wireless satellite phone service, *SMARTLink*.

Related Party Transactions

a. Air Time Purchase Agreement between PLDT and AIL and Related Agreements

For a more detailed discussion on the Air Time Purchase Agreement, see *"— Contractual Obligations and Commercial Commitments — Unconditional Purchase Obligations — Air Time Purchase Agreement with AIL"*.

b. Transactions with Major Stockholders, Directors and Officers

Transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT had a direct or indirect material interest, as at June 30, 2007 (unaudited) and December 31, 2006 (audited) and for the six months ended June 30, 2007 and 2006 (unaudited) are as follows:

Cooperation Agreement with First Pacific and certain affiliates, or the 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 a 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, restrictions on the ownership of shares of PLDT by NTT Communications and DoCoMo, limitation on competition, business cooperation, additional rights of DoCoMo, change in control and termination. 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 – An Integrated i-mode Services 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 services package including a 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. Outstanding obligation under this agreement amounted to Php46 million and Php53 million as at June 30, 2007 and December 31, 2006, respectively.

Advisory Services Agreement between DoCoMo and PLDT — An Advisory Services Agreement was entered into by DoCoMo and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, DoCoMo will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, said agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement for the six months ended June 30, 2007 amounted to Php38 million. Outstanding liability under this agreement amounted to Php6 million and Php32 million as at June 30, 2007 and December 31, 2006, respectively.

Other Agreements with NTT Communications and/or its Affiliates — Under certain agreements, (1) NTT Communications provides advisory services for various business areas of PLDT; (2) PLDT is licensed to market managed data and other services using NTT Communications' Arcstar brand; and (3) PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services. Total fees under these agreements totaled Php47 million and Php100 million for the six months ended June 30, 2007 and 2006, respectively. PLDT's outstanding obligations under these agreements amounted to Php6 million and Php18 million as at June 30, 2007 and December 31, 2006, respectively.

Agreement between Smart and Asia Link B.V., or ALBV. Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group, for the latter's provision of technical support services and assistance in the operations and maintenance of cellular business for a period of five years, subject to renewal upon mutual agreement between the parties. The agreement provides for quarterly payments of technical service fees equivalent to 2% of the net revenues of Smart. In January 2004, the agreement was amended, reducing the technical service fees to be paid by Smart to ALBV to 1% of net revenues effective January 1, 2004. On February 18, 2004, Smart and ALBV entered into a renewal of the Technical Assistance Agreement extending the effectivity of the terms thereof to February 23, 2008. Furthermore, in view of the acquisition by Smart of ownership of 92.1% of the outstanding common stock of Piltel held by PLDT, the parties agreed to make the consolidated net revenues of Smart the basis for the computation of the 1% technical service fees payable by Smart to ALBV, effective January 1, 2005. Total service fees charged to operations under this agreement amounted to Php300 million and Php274 million for the six months ended June 30, 2007 and 2006, respectively. Outstanding payable of Smart to ALBV under this agreement as at June 30, 2007 and December 31, 2006 amounted to Php7 million and Php128 million, respectively.

Smart also has an existing Services Agreement with ALBV for a period of 25 years starting January 1, 1999, which will automatically expire unless renewed by mutual agreement of both parties. Under the agreement, ALBV provides advice and assistance to Smart in sourcing capital equipment and negotiating with international suppliers, arranging international financing and other services therein consistent with and for the furtherance of the objectives of the services. Service agreement fees were paid for the whole 25-year period. Outstanding prepaid management fees as at June 30, 2007 and December 31, 2006 amounted to Php843 million and Php869 million, respectively. Financing service fee charged to operations amounted to Php26 million each for the six months ended June 30, 2007 and 2006.

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 under these agreements amounted to Php198 million and Php189 million for the six months ended June 30, 2007 and 2006, respectively. Two directors of PLDT have direct/indirect interests 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.

ANNEX – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of unaudited consolidated trade receivables as at June 30, 2007:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(In Millions)		
I. Trade Receivables					
1. Retail subscribers	Php8,083	Php1,521	Php945	Php228	Php5,389
2. Foreign administrations	5,771	1,521	1,003	513	2,734
3. Corporate subscribers	7,202	542	565	341	5,754
4. Domestic carriers	1,671	428	93	89	1,061
5. Dealers and agents	2,157	1,495	84	130	448
Subtotal	Php24,884	Php5,507	Php2,690	Php1,301	Php15,386
II. Non-Trade Receivables	1,507				
Total	26,391				
Less: Allowance for doubtful accounts	16,946				
Total Receivables - net	**Php9,445**				

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the first half of 2007 to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: ______________________________
NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title: ______________________________
ANABELLE LIM-CHUA
Senior Vice President and Treasurer
(Principal Financial Officer)

Signature and Title: ______________________________
JUNE CHERYL C. FURIGAY
Vice President and Controller
(Principal Accounting Officer)

Date: August 7, 2007