SEC Number **PW-55**

File Number ____________

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

June 30, 2008

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

August 5, 2008

Securities & Exchange Commission
Money Market Operations Department
SEC Building, EDSA
Mandaluyong City

Attention: Director Justina Callangan
Corporations Finance Department

Gentlemen:

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

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

P W - 5 5

S.E.C. Registration No.

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

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

(Company's Full Name)

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

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

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

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

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

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

Total Amount of Borrowings

2,184,303 As at June 30, 2008	N/A	N/A
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended June 30, 2008

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

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

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

6. Industry Classification Code: (SEC Use Only)

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

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

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

10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class	**Number of Shares of Common Stock Outstanding**
Common Capital Stock, Php5 par value	188,066,928 shares as at June 30, 2008

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

    Yes [X]   No [ ]

12. Check whether the registrant

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

    Yes [X]   No [ ]

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

    Yes [X]   No [ ]

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PART I –– FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

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

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

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

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

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

Financial Highlights and Key Performance Indicators

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

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

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

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

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

Overview

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

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

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

- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT; knowledge processing solutions provided by SPi Technologies, Inc. and its subsidiaries, or SPi Group; customer interaction services provided under the umbrella brand name *ePLDT Ventus*, through ePLDT Ventus, Inc., or Ventus, Parlance Systems, Inc., or Parlance, and Vocativ Systems, Inc., or Vocativ; internet access and online gaming services provided by Infocom Technologies, Inc., or Infocom, Digital Paradise, Inc., or Digital Paradise, netGames, Inc., or netGames, and Level Up!, Inc., or Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 9 – Investments in Associates and Joint Ventures* to the accompanying unaudited consolidated financial statements.

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

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

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

Results of Operations

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

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Total
			(in millions)		
For the six months ended June 30, 2008					
Revenues and other income	Php47,398	Php30,129	Php5,171	(Php5,083)	Php77,615
Service	45,779	24,582	4,964	(4,978)	70,347
Non-service	910	179	201	(35)	1,255
Gain (loss) on derivative transactions – net	(148)	4,188	(31)	(8)	4,001
Interest income	652	227	9	–	888
Others	205	953	28	(62)	1,124
Expenses	25,528	21,888	5,169	(5,039)	47,546
Income before income tax	21,870	8,241	2	(44)	30,069
Net income for the period	14,251	5,417	8	(44)	19,632
Net income attributable to equity holders of PLDT	13,869	5,415	30	(44)	19,270
For the six months ended June 30, 2007(1)					
Revenues and other income	45,696	24,379	4,938	(4,462)	70,551
Service	42,964	23,709	4,806	(4,338)	67,141
Non-service	1,142	89	162	(77)	1,316
Interest income	499	139	8	–	646
Foreign exchange gains (losses) – net	992	54	(51)	–	995
Others	99	388	13	(47)	453
Expenses	23,134	20,797	4,973	(4,462)	44,442
Income (loss) before income tax	22,562	3,582	(35)	–	26,109
Net income for the period	15,150	2,199	3	–	17,352
Net income attributable to equity holders of PLDT	14,857	2,197	25	–	17,079

Increase (Decrease)	Wireless Amount	%	Fixed Line Amount	%	ICT Amount	%	Inter-segment Amount	Total Amount	%
Revenues and other income	Php1,702	4	Php5,750	24	Php233	5	(Php621)	Php7,064	10
Service	2,815	7	873	4	158	3	(640)	3,206	5
Non-service	(232)	(20)	90	101	39	24	42	(61)	(5)
Gain (loss) on derivative transactions – net	(148)	(100)	4,188	100	(31)	(100)	(8)	4,001	100
Interest income	153	31	88	63	1	13	–	242	37
Foreign exchange gains (losses) – net	(992)	(100)	(54)	(100)	51	100	–	(995)	(100)
Others	106	107	565	146	15	115	(15)	671	148
Expenses	2,394	10	1,091	5	196	4	(577)	3,104	7
Income (loss) before income tax	(692)	(3)	4,659	130	37	106	(44)	3,960	15
Net income for the period	(899)	(6)	3,218	146	5	167	(44)	2,280	13
Net income attributable to equity holders of PLDT	(988)	(7)	3,218	146	5	20	(44)	2,191	13

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

Wireless

Total Revenues and Other Income

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

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

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

Service Revenues

Our wireless service revenues increased by Php2,815 million, or 7%, to Php45,779 million in the first half of 2008 as compared with Php42,964 million in the same period in 2007, mainly as a result of the growth in the cellular and wireless broadband subscriber base. Short messaging service, or SMS, benefited from the larger subscriber base; voice revenues declined, however, as the unfavorable effect of a lower average Philippine peso to the U.S. dollar exchange rate on our dollar-linked revenues offset the increase in call volumes. As a percentage of our total wireless revenues and other income, service revenues contributed 97% in the first half of 2008 as compared with 94% in the same period in 2007.

Cellular Service

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

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

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

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

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

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

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

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

	Six Months Ended June 30,			
			Increase (Decrease)	
	2008	2007	Amount	%
Systemwide traffic volumes (in millions)				
Calls (in minutes)	3,317	3,104	213	7
Domestic – outbound	1,940	1,869	71	4
International	1,377	1,235	142	11
Inbound	*1,265*	*1,138*	*127*	*11*
Outbound	*112*	*97*	*15*	*15*
SMS count	121,354	115,067	6,287	5
Text messages	120,515	114,003	6,512	6
Domestic	120,369	113,876	6,493	6
Bucket-Priced	*107,321*	*100,319*	*7,002*	*7*
Standard	*13,048*	*13,557*	*(509)*	*(4)*
International	146	127	19	15
Value-Added Services	824	1,041	(217)	(21)
Financial Services	15	23	(8)	(35)

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

Voice Services

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

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

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as value-added services, increased by Php2,287 million, or 11%, to Php23,763 million in the first half of

2008 from Php21,476 million in the same period in 2007. Cellular data services accounted for 55% of cellular service revenues in the first half of 2008 as compared with 52% in the same period in 2007.

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

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

(1) Includes standard services such as info-on-demand, ringtone and logo download, etc.
(2) Includes Multimedia Messaging System, Wireless Application Protocol, General Packet Radio Service, or GPRS, etc.

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

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

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

Subscriber Base, ARPU and Churn Rates

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

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

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

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

	Six Months Ended June 30,							
	Gross		Decrease		Net		Decrease	
	2008	2007	Amount	%	2008	2007	Amount	%
Prepaid								
Smart	Php293	Php324	(Php31)	(10)	Php231	Php266	(Php35)	(13)
Piltel	203	230	(27)	(12)	161	193	(32)	(17)
Prepaid – Blended	261	296	(35)	(12)	206	245	(39)	(16)
Postpaid – Smart	2,073	2,093	(20)	(1)	1,491	1,504	(13)	(1)
Prepaid and Postpaid Blended	281	319	(38)	(12)	220	261	(41)	(16)

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

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

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

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

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

	Prepaid				Postpaid	
	Smart		Piltel		Smart	
	Gross	Net	Gross	Net	Gross	Net
2008						
First Quarter	Php292	Php230	Php207	Php163	Php2,013	Php1,472
Second Quarter	294	232	199	159	2,134	1,510
2007						
First Quarter	Php323	Php267	Php228	Php187	Php2,045	Php1,483
Second Quarter	324	265	233	198	2,141	1,526
Third Quarter	293	239	206	173	2,073	1,464
Fourth Quarter	307	244	216	177	2,105	1,467

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

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

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

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

Wireless Broadband, Satellite and Other Services

Our revenues from wireless broadband, satellite and other services consist mainly of wireless broadband service revenues from SBI, rentals received for the lease of Mabuhay Satellite's transponders, charges for ACeS Philippines' satellite information and messaging services and service revenues generated from PLDT Global's subsidiaries. Gross revenues from these services for the first half of 2008 amounted to Php2,766 million, an increase of Php884 million, or 47%, from Php1,882 million in the same period in 2007 principally due to the growth in our wireless broadband business partially offset by lower satellite transponder rental revenues owing to lower rental charges and number of transponders being leased out, and the peso appreciation in 2007.

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

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

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

Non-service Revenues

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

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

Interest Income

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

Foreign Exchange Gains – net

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

Loss on Derivative Transactions – net

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

Others

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

Expenses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provision for Income Tax

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

Net Income

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

Fixed Line

Total Revenues and Other Income

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

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

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

Service Revenues

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

Local Exchange Service

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

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

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

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

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

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

International Long Distance Service

Our international long distance service revenues, which we generate through our international gateway facilities, consist of (i) inbound call revenues representing settlements from foreign telecommunications carriers for inbound international calls, virtual transit and hubbing service and reverse charged calls such as received collect and home country direct service; (ii) access charges paid to us by other Philippine telecommunications carriers for terminating inbound international calls to our local exchange network; and (iii) outbound call revenues representing amounts billed to our customers (other than our cellular customers) for outbound international calls, net of amounts payable to foreign telecommunications carriers for terminating calls in their territories.

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

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

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

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

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

National Long Distance Service

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

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

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

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

Data and Other Network Services

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

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

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

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

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

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

200,029 subscribers in the same period in 2007.

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

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

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

Miscellaneous

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

Non-service Revenues

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

Gain on Derivative Transactions – net

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

Interest Income

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

Foreign Exchange Gains – net

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

Others

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

Expenses

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

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

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

[1] *Includes salaries and employee benefits, LTIP, pension and MRP costs.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provision for Income Tax

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

Net Income

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

Information and Communications Technology

Total Revenues and Other Income

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

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

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

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

Service Revenues

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

Knowledge Processing Solutions

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

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

Customer Interaction Services

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

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

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

Internet and Online Gaming

Internet and online gaming service revenues consist of: (i) revenues derived from actual usage of the internet access network by prepaid subscribers; (ii) monthly service fees from postpaid corporate and consumer subscribers; (iii) one-time fees generated from the reselling of internet-related solutions such as security solutions and domain registration; (iv) franchise and royalty fees for *Netopia* internet cafés; (v) online gaming revenues from unique subscribers, including one-time sale of gaming cards and electronic pins, and top-up fees upon actual consumption of gaming credits or after expiration of any unused peso value thereof.

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

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

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

Non-service Revenues

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

Interest Income

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

Loss on Derivative Transactions – net

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

Others

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

Expenses

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

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

	Six Months Ended June 30,					
					Increase (Decrease)	
	2008	%	2007	%	Amount	%
	(in millions)					
ICT services:						
Compensation and employee benefits[1]	Php2,872	56	Php2,583	52	Php289	11
Depreciation and amortization	423	8	475	9	(52)	(11)
Professional and other contracted services	363	7	607	12	(244)	(40)
Rent	345	7	329	7	16	5
Repairs and maintenance	281	5	245	5	36	15
Communication, training and travel	264	5	229	5	35	15
Cost of sales	264	5	143	3	121	85
Amortization of intangible assets	114	2	96	2	18	19
Selling and promotions	98	2	130	3	(32)	(25)
Financing costs – net	89	2	34	1	55	162
Taxes and licenses	48	1	39	1	9	23
Insurance and security services	28	1	24	–	4	17
Asset impairment	6	–	24	–	(18)	(75)
Gain on derivative transactions – net	–	–	(85)	(2)	85	100
Foreign exchange gains – net	(141)	(3)	–	–	(141)	(100)
Other expenses	115	2	100	2	15	15
Total	Php5,169	100	Php4,973	100	Php196	4

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Benefit from Income Tax

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

Net Income

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

Liquidity and Capital Resources

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

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

	June 30,	December 31,
	2008	**2007**
	(in millions)	
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php51,486	Php53,372
Obligations under capital lease	9	15
	51,495	53,387
Current portion of interest-bearing financial liabilities:		
Notes payable	567	493
Long-term debt maturing within one year	14,462	6,775
Obligations under capital lease maturing within one year	183	481
Preferred stock subject to mandatory redemption	16	1,015
	15,228	8,764
Total interest-bearing financial liabilities	66,723	62,151
Total equity	105,928	112,511
	Php172,651	Php174,662
Other Financial Data		
Total assets	Php237,158	Php240,158
Property, plant and equipment – net	155,778	159,414
Cash and cash equivalents	18,274	17,447
Short-term investments	13,328	13,415

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

Operating Activities

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

Cash flows from operating activities of our wireless business amounted to Php22,745 million in the first half of 2008, a decrease of Php2,007 million, or 8%, compared with Php24,752 million in the same period in 2007. The decrease in our wireless business segment's cash flows from operating activities was a result of lower collection of accounts receivables and higher settlement of various payables in the first half of 2008. Conversely, cash flows from operating activities of our fixed line business increased by Php5,142 million, or 44%, to Php16,759 million in the first half of 2008 compared with Php11,617 million in the same period in 2007. This increase was primarily due to higher collection of accounts receivable, lower settlement of various liabilities and increase in advance payments received from various leased lines in the first half of 2008. The overall increase in our cash flows from operating activities was primarily due to higher billings and lower level of settlement of various current liabilities, partially offset by higher income taxes paid in the first half of 2008. We believe that our continuing strong cash flows from operating activities on a consolidated basis will allow us to satisfy our current liabilities as our current ratio is less than 1:1 as at June 30, 2008.

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

Investing Activities

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

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

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

Financing Activities

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

Debt Financing

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

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

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

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

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

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

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

Debt Covenants

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

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

Financing Requirements

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

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

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

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

Credit Ratings

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

PLDT's current credit ratings are as follows:

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

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

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

Off-Balance Sheet Arrangement

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

Equity Financing

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

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

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

Contractual Obligations and Commercial Commitments

Contractual Obligations

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

Commercial Commitments

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

Quantitative and Qualitative Disclosures about Market Risks

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

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

Impact of Inflation and Changing Prices

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

PART II – OTHER INFORMATION

Related Party Transactions

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

ANNEX – AGING OF ACCOUNTS RECEIVABLE

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

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

SIGNATURES

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

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title:

NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title:

Anabelle Lim-Chua

ANABELLE LIM-CHUA
Senior Vice President and Treasurer
(Principal Financial Officer)

Signature and Title:

June Cheryl C. Furigay

JUNE CHERYL A. CABAL-FURIGAY
Vice President and Controller
(Principal Accounting Officer)

Date: August 5, 2008